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**CONVERSATION WITH AUTHORS**

# A conversation with Richard Langlois, author of “The Corporation and the Twentieth Century: The History of American Business Enterprise”

Princeton University Press, 2023, 816 pp.  
ISBN: 9780691246987

**JEL codes:** B25, D02, P16 | **DOI:** <http://dx.doi.org/10.5947/jeod.2026.005>

*Massimiliano Vatiéro (MV):* In this conversation, we introduce *The Corporation and the Twentieth Century: The History of American Business Enterprise* by Richard N. Langlois, a leading scholar in institutional economics and the theory of the firm. Prof. Langlois is widely recognized for his influential work on modularity, dynamic capabilities, and the evolution of organizational forms. His research consistently bridges economics, business history, and management, offering a coherent framework to understand how institutions, technology, and organizations co-evolve<sup>1</sup>.

In this ambitious volume, Prof. Langlois reexamines the rise, dominance, and transformation of the modern business corporation in the United States throughout the 20th century. Spanning the era of early managerial capitalism to today’s networked and platform-based firms, the book delivers a fresh interpretation of corporate evolution rooted in institutional analysis. Rather than depicting large, vertically integrated corporations as the inevitable outcome of technological progress—as

<sup>1</sup> Prof. Langlois is not just a scholar whose work I greatly admire. I also share a professional connection through the World Interdisciplinary Network for Institutional Research (WINIR, <https://winir.org>), where he served as President and I as member of the Council for several years.

in Alfred Chandler's classic narrative—Prof. Langlois argues that corporate structures represent historically contingent responses to specific institutional and economic conditions.

Central to the book's thesis is the notion that transaction costs and institutional constraints, rather than technology alone, shaped American business organization. Drawing on Ronald Coase and Oliver Williamson, Prof. Langlois frames the corporation as an institutional solution to coordination and information challenges at distinct historical junctures. In the early and mid-20th century, high transaction costs, underdeveloped markets for intermediate goods, and limited communication technologies favored expansive managerial hierarchies, which internalized coordination to sidestep unreliable markets.

Technological advances—particularly in information and communication—gradually eroded these coordination costs, undermining the rationale for vertical integration. Prof. Langlois charts how late-20th-century firms pivoted toward modular production, outsourcing, and market-based coordination, heralding a “return to Adam Smith” where specialization and decentralized mechanisms regained primacy. Far from vanishing, the corporation adapted, evolving into a more agile entity woven into networks of suppliers, partners, and platforms.

Richly illustrated with historical case studies—from General Motors and IBM to Silicon Valley startups—these examples bolster Prof. Langlois's claim that firms are not static but dynamic institutional arrangements. Seamlessly integrating business history with institutional economics, the book links Chandler's empirical insights to the theories of Coase, Williamson, and Schumpeter, yielding an evolutionary lens on capitalism<sup>2</sup>.

Prof. Langlois writes with exemplary clarity and balance, eschewing nostalgia for managerial capitalism and uncritical zeal for digital markets alike. He offers a nuanced chronicle of organizational change, foregrounding the coevolution of technology, institutions, and markets. Ultimately, *The Corporation and the Twentieth Century* reframes the corporation not as a fixed technological artifact but as a vital, adaptive response to evolving economic and informational exigencies—essential reading for scholars of economic history, industrial organization, and institutional economics.

I would like to pose three questions to Prof. Langlois.

Could you briefly summarize the main motivations behind the book and its key findings?

*Richard Langlois (RL):* Many thanks for inviting me to talk about the book.

My main motivation for writing the book was to fill in what I considered to be a gap in my own understanding of the evolution of the American corporation. I continue to believe that Alfred Chandler (in *The Visible Hand*, 1977, and elsewhere) had the right account of the emergence of the large multi-unit enterprise at the end of the 19th century. With the elaboration of the railroad and

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<sup>2</sup> In a recent paper, Langlois (2025) argues that Chandler's discomfort with (Williamsonian) New Institutional Economics, especially its focus on transaction costs and asset specificity, led him to endorse the capabilities approach while downplaying Coasean insight that firms, markets, and hybrid arrangements represent alternative forms of economic organization.

the telegraph, underpinned by the availability of coal as an inanimate source of power, the economic geography of the country changed radically. In a world of high transportation and communications costs, production was necessarily local and at small scale. But with dramatically reduced transportation and communications costs, it began to make sense to produce at central locations in large volume with economies of scale and then ship to the periphery. Because market-supporting institutions did not exist to underpin the large-scale investment and capability upgrading this implied, the large multi-unit enterprises—including the railroads themselves—arose as an institutional structure.

As you note, I have argued that, by the end of the 20th century, abundant market-supporting institutions had developed, and much of even large-scale high-throughput production could become much more decentralized and guided by the market. This is what I called the *vanishing hand*. Modularity was part of this, but it is more than just a modularity story.

The gap I noticed was this: what happened in between? By the middle of the 20th century, markets and market-supporting institutions must have had time to develop. Yet this period was arguably the heyday of the large multi-unit enterprise. Was this because, as Chandler seemed to imply, that resource allocation by professional managers in vertically integrated firms is inherently superior to allocation through markets? It immediately occurred to me that markets were not in fact working well during the middle years of the 20th century, which were years of war, depression, and war again. I felt that I needed to explore this history carefully and thoroughly in order to make my argument: that the large vertically integrated firm persisted not because it was inherently superior to a decentralized alternative but because it was the best alternative available during an era in which politics and macroeconomics conspired to weaken markets and destroy market-supporting institutions.

*MV*: Thank you for your stimulating response. It is insightful to view the firm in the mid-20th century (an era marked by depression and world wars) as the most viable response when political and macroeconomic forces weakened markets and their supporting institutions. This perspective aligns closely with the political economy of the corporation (and corporate governance)—if I may, I would also point to the recent “update” of my chapter with Mark Roe on this topic (Roe and Vatiéro, 2025).

May I also raise a second question: why do you think this book might resonate particularly well with the audience of the *Journal of Entrepreneurial and Organizational Diversity* (JEOD)?

*RL*: At a fundamental level, the book should be of interest to readers of JEOD because it chronicles the history of many organizations and of many different kinds of organizations.

More fundamentally, though, I think the book should be of interest because it tries to think about history in terms of institutional substitution. One of the book’s central theses is that the large multi-unit enterprise is a repository of social institutions. Indeed, as Henry Hansmann wrote in a wonderful article in JEOD in 2013, a corporation is a kind of government—and a government a kind of corporation. Thus, during periods when market-supporting institutions were lacking or

impaired in the larger civil society, many of the functions of those institutions could be pulled inside the corporation. Conversely, as the environment changed, and as market-supporting institutions developed, activities that had once taken place within large firms were increasingly undertaken through a diversity of arrangements between firms. The book is especially concerned with what are sometimes called hybrid organizations, that is, contractual arrangements and ownership partitioning that looks like neither a classical Coasean firm nor a classical Coasean market.

*MV:* Finally, could you help outline a potential research agenda focused on themes such as cooperative economics, and entrepreneurial, organizational and institutional diversity? In other words, what do you see as the most pressing and promising areas for scholars writing for and reading JEOD today?

*RL:* You mentioned modularity. I have written about modular organizational design, though I did not in fact use the idea very much in the *Corporation* book. I think there is a lot of room for thinking about organizations from the perspective of architectural design.

Carliss Baldwin (in her new book but especially in a 2008 paper in *Industrial and Corporate Change*) has set the stage for this kind of research. In her account, organization is really about managing complexity and about the knowledge problem that complexity creates. It is an abstract design principle that can help to deal with complexity by, in effect, imprisoning that complexity within modules. Software engineers talk about *encapsulation* and *information hiding*: most parts of the system are permitted to communicate only with parts within their module, and the modules are chosen in a way that tries to minimize widespread interconnections among parts. The modules communicate with one another only through an interface, which is effectively a specialized module. Baldwin applies this by associating the modules with the internal communications (of often rich and complex information) within firms, which then communicate with other modules (firms) at *thin crossing points*. Communication at those crossing points requires that what is exchanged be defined, measured, and paid for. We can associate such transactions with the price system as Hayek (1945) described it. But very frequently, especially at moments of change and innovation, agents need to transmit rich and complex information, which is costly to define, count, and price. In such cases it is often cheaper to create transaction-free zones that eliminate mundane transaction costs. These zones are modules, and modules are firms.

As Hebert Simon (1962) long ago argued, a modular system is a hierarchical system. In a sense, then, firms are part of what Garicano (2000) called a knowledge hierarchy. In Garicano's account, knowledge is hierarchical in that line workers have only the easily classified knowledge needed to deal with routine problems, whereas managers must have less standardized kinds of knowledge in order to deal with problems that get bumped up the hierarchy for them to solve. In Baldwin's account, knowledge is (sometimes) standardized in the process of *transacting* across firm boundaries, and transactions (transfers) are bumped up the hierarchy to managers within the module of the firm when transacting becomes too complicated and costly.

These are different takes on a similar idea. I think this might be a fertile area for new research. When is knowledge standardized? When is it not? And how should organizations respond? I think line production and transacting interfaces are only two of the places to look.

In the modularity story, the most inchoate, complex, and costly transfers must remain within the boundaries of the module. As they will not need to be defined, counted, and priced, these in-module transfers—or the knowledge associated with them—will effectively be thrown into the public domain, albeit the private “public domain” of the firm. Thus, the firm is a “knowledge commons”, at least in this narrow sense. Thus, I agree with the idea of thinking about the organization of the firm as a knowledge commons (Gindis and Cole, 2026), though I would add a few words of caution: we may well think of the *firm*, and—better—the task-and-transfer system surrounding the firm, as a polycentric order in the sense of Elinor Ostrom (1990), but we should not understand the *corporation* as a commons. I very much agree with the legal institutionalists (Deakin et al., 2017) that law matters for organization and, in particular, that the corporation should be understood as a structure *constituted* in law rather than merely a de facto arrangement. I also believe that Baldwin’s modularity account is a correct understanding of the *corporation*, not merely of the firm more generally. Indeed, the very idea of modular design is constitutional: the system’s visible design rules are a kind of constitution that specifies the rules and interfaces governing the modules, with their hidden design parameters. Thus, I am fine with thinking about the inner workings of the corporation as a constituted module in terms of a rules-based solution to a problem of the commons—maybe along the lines suggested by Garicano. And the larger task-and-transfer network, of which the legally constituted corporation is a part, may well be a kind of polycentric order. But the corporation itself is not. As Hansmann and Kraakman (2000) insist, it is a legally constituted entity owned by its shareholders.

MV: Thank you, Prof. Langlois, for the opportunity to discuss your research and your book *The Corporation and the Twentieth Century: The History of American Business Enterprise*. It was a stimulating conversation.

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