The Free Market Economy's Influence on Modern Business

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Abstract: **Adam Smith's base economic theory known as the "Invisible Hand" details societal implications on economic interference. While the theory is normally discussed in a historical context when alluding to past market ideologies, its association with modern business practices is not usually held as a valid, significant, or relevant connection. Because the free market economy is inherently affected by interpersonal connections and interactions, it is held that Smith's key principles have long lasting effects on modern business practices. The success of certain organizations rests in the hands of corporate practices which align with the aforementioned principles.**

Introduction

Our society is structured in a manner which places the market economy at the forefront of the average individual's societal contribution. The way by which people collaborate is invariably influenced by the (market economy) structured society. Adam Smith, economist and philosopher, best correlated the applications of the economy to the general working man with a discussion of the "Invisible Hand" (Manhoka, 2015). The "Invisible Hand", or the assertion that self-interested individuals will rely on societal interdependence to further personal economic agendas (within a free market economy), serve as a basis for this paper's discussion of businesses. These collaborations between individuals are best studied and recorded with examples of corporate entities and businesses. Successful businesses take advantage of the "Invisible Hand" by practicing and incorporating a number of successful strategies, structures, and performance mechanisms to ensure the maximization of production, promote optimal efficiency, protect ethical practices, and foster innovative tendencies in a work environment conducive to success. A number of business success stories have implemented procedures and strategies as mentioned in the former; many failed businesses have arrived at states of ultimate failure, bankruptcy, and inward implosion due to a lack of application of the previously mentioned strategies. It is for this reason that this paper will focus primarily on the impact of successful strategies, management structures, performance mechanisms, maximized production, optimal efficiency, ethical practices, and innovation through cross applications of successful companies and those that have failed; this paper aims to point at viable and feasible solvencies for those companies that have failed historically. The discussion of solvencies will ultimately focus on a broad theme of core management aspects, which will recur through many examples. The paper, prior to concluding, will discuss the failures, implications, and potential solutions regarding strategic failures for non-corporate entities: nonprofits and government regulators. The analysis of nonprofits and government regulators serves to highlight potential reforms as well as pinpoint certain solutions to corruption, incompetency, and inefficiency within the entities. These additional discussions aim to further the assertion that the market economy has overarchingly affected the success of a number of systems (not limited to corporate entities or businesses).

Business Success in the Market Economy

Certain methodologies and practices utilized by business success stories often seem obvious and apparent as to why they are used. Thus, the question arises: If successful business outlines exist, why do businesses even fail in the first place? The simple answer to that is that companies fail to incorporate structures which ensure that internal protocols within the business promote external success. Broadly, these successes and failures can be boiled down into three main factors of causation: management structures, quality assurance, and corporate culture maintenance. After analyzing successes, failures and points of direct solvency will be linked, providing a comprehensive overview of how turmoil can be avoided in different industries. The businesses which will be analyzed throughout the section will be linked to strong warranting depicting why the ultimate success or downfall of the business can be tracked into one or more of the three structures listed above.

Management Structures

Hierarchical organizational structures, matrix organizational structures, customer organizational structures, and product organizational structures are among the most common internal set-ups incorporated by businesses (Freedman, n.d). Because these organizations are most common among businesses with relative measures of success, we will focus on a structure with nuanced usage, but great potential for alleviating internal distress within corporations. This management philosophy is known as *holacracy*. Holacracy is defined as **"a system for managing a company where there are no assigned roles and employees have the flexibility to take on various tasks and move between teams freely" (**Hargrave, 2021**).**

Essentially, holacracy is a flat system of management structure, with little to no hierarchy involved. Some people categorize holacracy as a sort of socialist approach to business (Iyer, 2021). Holacracy ensures that employees are not restricted to certain roles, and allows them to thrive as multifaceted task solvers. Groups, or "circles," are created as self organizing teams instead of relying upon instruction, demands, and relegation from a higher up authority of management. Holacracy fosters growth, innovation, creative thinking, problem solvency, and avoids misdirection from management playing a role in company problems, as an environment where better ideas, integrated systems of governance, and greater resource allocation is promoted (Insights, 2012). The main driver of holacracy is a group's will to accomplish tasks efficiently, in a timely manner, and on a basis of collaboration-influenced work. The holacratic structure solves the problem alluded to by the invisible hand; instead of creating structures where hierarchy plays a disproportionate role in company processes, mutual dependence is fostered through circles of groups accomplishing tasks collectively.

Case Study: Zappos

Zappos, the online shoewear company, adopted holacracy as its key organizational structure with regards to customer service. Zappos' rationale for adopting the practice is best summarized with a quote from Zappos, themselves: "Holacracy immediately provided us with a set of rules and processes that everyone could see, with a lot of the nuances and checks-and-balances already figured out for us" (Insights, 2012). When attempting to enhance customer experiences with Zappos, the core management of Zappos came to the conclusion that it was in the best interest of all employees to remove hierarchical layers in order to speed up innovation with regards to customer satisfaction and service (Insights, 2012). Thus, the practice was adopted and Zappos never looked back.

While layers of management were repealed with the process, it is not as if there is no management whatsoever within the company; there are still people designated as leaders, Zappos just removed the traditional notion that only executives could make authoritative decisions with the company and left that up to the body of employees within their workforce.

Case Study: Theranos[1]

Many businesses could have averted disaster by employing the decentralized authority implicit in holacracy; Theranos is a key example of such a company. Theranos, a health technology company which was eventually brought down due to fraudulent practices and misleading investors, had a number of structural integrity issues within its structure of management (Hartman, 2022). While Theranos attempted to model a standard system of a hierarchical organizational structure, it was really a facade for a sort of authoritarian regime. Elizabeth Holmes was a young and inexperienced founder, employees felt unsafe at work sites, the management was young while the staffing was old, and the management system in place allowed Holmes' autocratic run to reign supreme. The ethical and structural issues within Theranos were perpetuated by the hierarchical management structure.

By making use of holacracy, a number of issues within Theranos' structure would have been easily avoidable. If circles and groups were in place, the old staff would have just as much of a say in the company's actions as the much younger management. On top of the equity, the broader faction of the corporation which was blind to Holmes' misleading of investors and publicly-broadcasted fraud, would have been able to cite Elizabeth Holmes (among other leaders such as COO, Sunny Balwani) as a vital issue, and would have had the authority to dismiss her from her position.

Empowering the project's staff, working in autonomous groupings, and fostering innovation through the use of the circle methodology potentially could have allowed Theranos to see success with its tangible product, rather than reeling in unethical practices. Holacracy would have paid dividends towards preventing the perpetual downfall of the company. By incorporating quality assurance, radical transparency, and a better corporate culture, even more issues within the corporation would have led

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to outcomes preferable to the ceasement of operations. The relevance of the other three central points of business success to Theranos's operations will be expanded upon, individually, in the remaining sections.

Quality Assurance/Control

Product development, oversight, preparation, and preservation can be collectively referred to as quality assurance (Hamilton, 2020). Quality assurance, while differing from quality control, focuses on how processes involving product matters are carried out, while quality control has to do with the inspection and oversight of quality assurance practices (Hamilton, 2020). When measuring a company's quality assurance practices with regards to their product, we can derive three important practices which ensure maximized quality in output: agile methodology, standard deviation practices, and six sigma practices. Agile methodology is a method of project management which involves the separation of a practice into multiple phases; each one of these phases are then overseen by stakeholders in a product's success, as well as oversight teams which are invested in product development.

As standard deviation practices and agile methodology go hand in hand, we will specifically be analyzing the usage of agile manufacturing, agile software development, and agile corporate framework as they relate to different companies' prosperities. Six sigma practices are a set of techniques and tools used for process improvement, which were introduced by American engineer Bill Smith while working at Motorola in 1986 (Sheehy, 2015). They are designed so that 99.99966% of all opportunities to produce some feature of a part are statistically expected to be free of defects. A number of companies have adopted such practices and have taken output production levels to new heights, had their profitability skyrocket, and have patched up previously plaguing issues within corporate organization, production bylaws, and product management processes.

Case Study: Toyota

Perhaps the most notable adoption of six sigma management processes is with Toyota. The Toyota Way, as it is called, is a tool which Toyota uses to drive inefficiencies from processes, and create a production environment conducive to productivity at all times (Wigmore, 2015). Note, the Toyota Way is also known as agile manufacturing. Essentially, the unique practice is a traffic cycle type of system, in which one incorrect action at any particular station messes everything else up. Paired with this systematic process is the belief that each car should be worked on one at a time, rather than some sort of parallel or vertical integration. This practice ensures that continuous process flow brings problems to the surface of work, ensuring that they can be dealt with in a timely and organized fashion, while making use of pull systems (a chord that any employee can pull to immediately halt production along the entire line) to avoid overproduction (the prioritization of minimal inventory, storage space, and the limiting of waste and overproduction results).

The Toyota Way maintains a sort of complicated sophistication, as their 14 principles are summed up by their two pillars of the Toyota Way: continuous improvement and respect for people. The Toyota Way is a perfect example of exemplifying a motto or a mission statement through work efforts, rather than symbolic representation.

Inspired by Toyota's early success with agile manufacturing, software companies began to implement agile software development methodologies. Agile methodology has been incorporated into practice by companies such as Tesla, Dell, IBM, Apple, and Microsoft (Denning, 2020). Agile is based on four key principles: individuals and interactions over processes and tools; working software over comprehensive documentation; customer collaboration over contract negotiation; and responding to change over following a plan. Companies use this methodology (with relation to software development) by incorporating a software development methodology (Agile Software Development) in order to scale faster while maintaining oversight; there are many kinds of Agile such as Scrum, Extreme Programming, and Lean (Krush, 2017).

Corporate leaders such as Elon Musk have come forward and claimed that their usage of agile software development is relevant because it adapts to changing times, accomplishes tasks quicker and more efficiently, and poses cheaper costs than other developmental methodologies (Berg, 2019). With an agile framework, companies such as Chevron used a scaled agile framework to scale faster, while maintaining oversight specificity: "a way to integrate our teams, harness their agility, and align them to enterprise objectives". Enterprise objectives are a set of organization and workflow patterns intended to guide enterprises in scaling lean and agile practices.

Case Study: Borders

Borders, the now deceased book store which was once acquired by K-Mart, eventually failed to adapt to the times and incorporate agile, six sigma, up to date methodology into their own practices. Borders' main issue was with their testing cycles, which were faulty, erroneous, and under poor oversight from K-Mart's management team which was in charge of their production as per their continual partnership. Borders essentially decided to 'stick to their guns', as "Borders was the only major book retailer that was almost completely dependent on people getting in their car, going to their store, and purchasing a physical book. When it comes to that sales model, the chapter is closed" (Brown, 2011).

Because Borders' management was unable to adapt to the times and branch out towards newly created industries such as the ebook industry, which competitors like Amazon capitalized on with the Kindle and other e-readers, the company ultimately plummeted and gave way to the rise of Barnes & Noble, a current giant in the literary media industries. The incorporation of an agile, fail fast methodology would have saved Borders from bankruptcy for a number of reasons. Primarily, aside from issues with production cycles, usage of agile framework would have allowed borders' staff to witness firsthand the scalability of competitors such as Barnes & Noble; Borders would have used this competitive metric to base future operations on Barnes & Noble's adaptation to the era of the internet.

Referring back to Theranos, the usage of agile software development practices would have greatly aided their production processes and likely would have enabled workers and potential whistleblowers to be alerted towards the faulty blood testing kits. A six sigma centered management would have ensured quality control; by fixing and correcting protocols to ensure that the level of product defects did not exceed the limit posed by six sigma, Theranos's perpetual prolongation of development and false promises of success would have been stopped right in its tracks. Aside from enabling whistleblowers, having an agile developmental strategy would have promoted a “fail fast” ideology which would have boosted company innovation in the face of discouraging results which were used as a cover up by Theranos’s unethical body of management heads.

Corporate Culture Maintenance/Radical Transparency

Corporate culture, deemed to be insignificant towards the overall success of a business by the masses, is the most important contributing internal factor which builds towards success (Groysberg, 2018). The other sections have highlighted unique cases of culture that have niche applications; corporate culture maintenance and ideologies of transparency are practices which apply to any company looking to benefit their corporate ethics. Oftentimes, people tend to perceive corporate culture exemplification as mission statements and other outward public relations pieces which actually have no substantial impact on company processes. This is far from the truth. Good corporate culture, aside from building upon the needs and wants of a company’s current employees, ensures that companies can attract new talent, retain talent, and build a legacy set forth by good corporate culture.

Aside from internal links between corporate culture and success, building a brand using corporate culture is an extremely profitable tool for most companies. Using tools such as the promotion of diversity and inclusion allow companies to expose themselves to employees of numerous backgrounds, experiences, and values which all have potential to make a company a benefactor of a nuanced, ethical practice of corporate culture. The Chevron way, an example of inclusionary, radical corporate culture, is a pioneer in the world of corporate culture practices (Wirth, 2021). The Chevron way fosters relationships and standard moral practices between employees in the workplace, which go on to achieve Chevron’s five key principles of the Chevron Way: high performance, diversity and inclusion, protecting people as well as the environment, and mutual partnerships. By building a corporate culture around the people who make the clock that is Chevron tick, Chevron is able to “develop and empower a highly competent workforce that delivers results the right way”.

Case Study: Bridgewater Associates

Radical transparency is a practice in corporate ethics which was first introduced by investor, Ray Dalio, into his co-owned hedge fund known as Bridgewater Associates. Radical transparency is defined just as how you would think: it is, simply put, encouraging open and honest dialogue and allowing the best thinking to prevail (Hammett, 2018). Dalio structured Bridgewater’s foundation in alignment with a key set of principles which he believed a “meritocracy of ideas” should be built upon. This foundation of radical transparency can be boiled down into a few specific actions taken by company employees, to ensure the preservation of an “idea meritocracy”: establishing grit and what an employer defines to be grit to employees, firing employees who do not comply with established metrics of grit and work ethic, and implementing company-set norms through processes such as the hiring process (Hammett, 2018).

Ensuring that employees coming into your company are ideal candidates for a radically truthful environment is the first step in cultivating this culture which Ray Dalio was incredibly fond of. Inclusion, diversification of ideas, and equity are the established goals of carrying out radical transparency and radical truth within a work environment. The idea behind the cultivation of such an environment is that corporate culture to an end is fraudulent; companies put out messages and statements which are never truly acted upon and are in fact placebo. By actually *using* a radically transparent culture, success is driven internally, within the company rather than the accomplishment of external success, without internal achievement. A radically transparent company, therefore, uses its ideals of truth and diversity to foster an environment in which employees create lasting relationships with one another and use camaraderie as a tool for success; this is as opposed to a typical company pattern in which although ideas may not be suppressed, a lack of inclusion and a fear of disenfranchisement highlight employee sentiments, even when these fears are not vocalized and accounted for.

Case Study: Enron

The downfall of Enron, an energy, commodities, and services company, can be linked to a number of issues in the ethical architecture of the company. Obviously, Enron's problems bled over into the financial sector and had many reasons for causation, but the company's unethical foundation perpetuated a culture of lies, deceit, and unethical behavior. Enron was built upon a foundation of deceit, ultimately impacting its performance evaluation and compensation plans, the former of which was riddled with corruption due to the company's flawed organizational architecture (adapted from corporate culture).

Malicious intent amongst employees became commonplace, as "organizational architecture gave birth to a corporate culture geared toward heightening individual initiative where employees even sabotaged one another, certain executives even arranged bogus transactions to meet performance targets, and the CFO even made money at the expense of the company" (Nguyen, 2016). By creating an environment which pitted employees against one another, promoting unethical practices with regards to risk management, and misleading company investors, Enron essentially proves itself as the perfect example of a bankrupt entity whose problems were brewed from within; having a poor corporate culture and a weak organizational architecture gave way for unethical practices to not only occur at Enron, but also prosper.

A cross application or point of solvency for Enron would be drawing parallels to the corporate culture, employee codes, ethical practices, and values of corporate cultures such as Chevron's and Bridgewater's: The Chevron Way and radical transparency. Having systems set in place to force employees to abide by honest, ethical practices would not have allowed unethical and internal strife to be perpetuated by those in management. Radical transparency goes further than just putting forth a statement of alleged ethical practice; a system of radical transparency, as mentioned earlier promotes an idea meritocracy, establishes grit and what an employer defines to be grit to employees, fires employees who do not comply with established metrics of grit and work ethic, and implements company set norms through processes such as the hiring process.

Establishing good corporate culture in a company, as proven by these two examples, is not limited to creating a "feel good, positive" atmosphere or putting out PR and mission statements to confirm public trust in company ethics, rather, it is a way of establishing organizational architecture, which Enron therefore lacked. The notion of culture being contagious in a company like Enron is absolutely correct; if poor organizational architecture set forth a culture of sabotaging coworkers, misleading financers, and leading an unethical operation, then it is fair to assume (with clear warranting) that a strong organizational architecture (led by corporate culture), would indeed promote a radically transparent, diverse, inclusive environment conducive to corporate success and industry achievement.

Discussion

Adam Smith's "Invisible Hand" allows us to view any entity through the scope of a company. Because of the effects of the free market economy and its induced societal counterdependency, we can therefore view non-corporate entities and governing bodies such as non profit organizations and governmental regulators through that very lens of induced success and induced failure. Any organization which involves large scale cooperation between individuals is inherently affected by the free market economy. We assert that a non profit organization is to be considered as a group organized for purposes other than generating profit and in which no part of the organization's income is distributed to its members, directors, or officers.

Growing Power, an agricultural organization founded by Will Allen, fell victim to issues with corporate culture maintenance and organizational structure. The accounting and financing issues which plagued the non profit stemmed from not only the lack of competency within the organization, but also from the lack of a coherent hierarchical (or even holacratic) model. Will Allen's internal founder's syndrome only aided the downfall, thus proving that overregulation and extra oversight from an overeager founder tarnish any sense of business structure (Satterfield, 2018).

The scope of the government regulation which we can qualify for is limited to the SEC, or the United States Securities and Exchange Commission. The self determined mission of the SEC is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. Issues with the SEC's structural intent came to light with the downfall of Enron.

Although we can pinpoint banks, auditors, security analysts, and even Enron itself as contributing factors to the company's deposition, the ultimate problem proved to be the SEC. While Arthur Andersen, Enron's faulty external auditor, failed to properly evaluate the company, the SEC and its reviewers had no system set in place to account for faulty auditing; it used Arthur Andersen's auditing as the primary scope of their company analysis, and failed to detect corporate red flags (Nguyen, 2016). As previously stated, the analysis of nonprofits and government regulators serves to highlight potential reforms as well as pinpoint certain solutions to corruption, incompetency, and inefficiency within the entities.

Conclusion

The companies which achieved documented success, as elaborated upon throughout the paper, were the ones which had the structures in place to succeed. These successful businesses had internal structures which acted in accordance with Adam Smith's philosophy of the Invisible Hand. Whether companies used a matrix organizational structure, a holacratic management philosophy, or a corporate culture centered practice of company values, the trend is simple to analyze: successful companies align themselves with the Invisible Hand because of its induced societal interdependence between people, groups, and ultimately, organizations. Now on the other hand, the trend is simply reversed for those companies which ultimately failed; solvencies for such companies, while being more complex and not limited to simple fixes, ultimately boil down to the fact that business ethics collapses, poor corporate governance, and unethical business practices can all be mitigated, at least to a degree, with the right organizational structure. The assertion was furthered with the concluding discussion: Adam Smith's "Invisible Hand" allows us to view any entity through the scope of a company. Any association of individuals which involves interdependence and cooperation to further personal goals is quite literally the essence of capitalism and the revitalization of the free market economy.

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