The Modern Corporation
Statement on Accounting

A number of regulatory initiatives on the national, international and EU levels both foster and fortify the principle of Maximizing Shareholder Value (MSV) in corporate governance. This tendency can be clearly seen in such areas as financial accounting standards and various soft and hard law initiatives pertaining to corporate governance that have flourished in recent decades. These have created a new type of accountability for managers of listed corporations as will be exemplified below. One of the most important regulatory changes over this period was when the EU opted for International Financial Reporting Standards (IFRS) as a basis for financial reporting for the accounts of all listed, EU-based corporations in 2005. These accounting standards, amounting to quasi legislation, are issued by a private sector body – the International Accounting Standards Board (IASB). Other important regulatory changes include the various national 'corporate governance codes' that have mushroomed since the early 1990s. Although such codes pertain to member states, the EU remains the main body prescribing most new hard-law corporate governance regulation within the union, for example, by means of the 13 company law directives issued so far.

A number of characteristics of these developments can be explicitly linked to the ascendance of MSV in corporate governance:

1. A new landscape of norm setters. A clear tendency in accounting and corporate governance regulation that started in the 1970s but accelerated from the 1990s is the transfer of control over regulatory initiatives and content from elected assemblies to bodies consisting of experts that stand outside the democratic process. As noted a clear example is financial accounting regulation. While the EU retained the right to ratify standards issued by the IASB, they are in practice initiated and developed by a private institution that can develop its agenda outside of democratic control (Chiapello and Medjad, 2009). Exacerbating this move from democratic jurisdiction, the individuals participating in the norm-setting, tend to be closely associated with "preparers" and "investors". This includes, for example, former executives of global companies, former partners of the multi-national accounting firms and former investment professionals.

2. Changing idea of the purpose of financial accounting. Financial accounting as this was understood theoretically and taught in many business schools for the greater part of the 20th century was characterized by the notion that the 'accounting entity', was a separate entity, distinct from both shareholders and other stakeholders (Mattessich, 2008). The purpose of accounting in this view was to hold management accountable to stakeholders; and a strong emphasis was laid on measuring company performance and not overvaluing assets to the detriment of creditors (Whittington, 2008). The IASB has gradually moved away from this position to more narrowly focus on financial reporting as a corporate tool for providing absentee investors and creditors with information to support their decisions to invest or not in the corporations' securities. This purpose is explicitly expressed in IASB's present conceptual framework (last updated 2010) that governs the development of accounting standards. Hence, the express purpose of financial reporting according to the most important standard setter for EU-based listed corporations is to support absentee investors (Zeff, 2012), presumably with a strong interest in MSV (Lazonick and O'Sullivan, 2000), signaling the primacy of this group.

3. Shifting methods of financial accounting. Based on the new premise that the main purpose of financial reporting is to provide information to the capital markets, accounting standards are developed and legitimized based on their ability to convey the value of corporations (Power, 2010). This has led to the introduction of so-called fair-value accounting (FVA), implying that assets are valued at their market value, as mandatory or as an option for important classes of assets such as financial instruments (see the standard IAS 39 and the forthcoming standard IFRS 9), intangible assets (IAS 38), property plant and equipment (IAS 16), investment property (IAS 40) and biological assets (IAS 41). This represents a radical shift in how European listed corporations account for their assets and liabilities.

This statement has been coordinated together with other disciplinary statement by Dr. Jeroen Veldman, Modern Corporation Project, which is hosted by Cass Business School, City University, London to support the Purpose of the Corporation Project: purposeofcorporation.org. It may be endorsed at: themoderncorporation.org

4. A new set of soft-law standards. The 1990s and early 2000s saw an explosion of so- called corporate governance codes in European countries, typically backed by the various states and stock exchanges. These define standards of what is considered good governance and operate on the principle of 'comply or explain'; meaning that if the standards are not followed, management and the board must provide an account of why that is the case. While codes vary in detail among countries, the European corporate governance code projects were all more or less inspired by the British Cadbury Report (1992) and subsequent UK-based developments which culminated in the current UK Corporate Governance Code (2012). They thus share noticeable similarities in issues covered. The main focus of these codes is to, by various measures, require the board to act in the best interests of shareholders and this has seen an increase in the relative power of institutional investors (Thomsen, 2006) and in the influence of capital markets as a whole .

5. A new accountability. The way corporations are accounted for is tremendously important for shaping the way investors and other stakeholders see and assess them (Hines, 1988; Miller and O'Leary, 1987). A new understanding of the purpose of financial accounting with adjoining accounting methods thus creates powerful incentives for corporate managers to adjust their actions accordingly (Watts and Zimmerman, 1986), to perform well according to those dimensions that are accounted for and therefore observed (Kaplan and Norton, 1992). Similarly, corporate governance codes direct the gaze of investors and media on specific dimensions by which corporate managements must deliver or suffer consequences (Westphal and Zajac, 1998). Financial accounting standards and soft-law initiatives like corporate governance codes thus powerfully define the domains of accountability of corporate management in ways that support MSV. Such developments over recent decades can result in insidious changes whereby a highly contestable, accounting-based measure of business success can become an end in itself at the expense of more pluralist and socially accountable stewardship of companies.

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Signatories

David Collison, Professor of Accounting and Society, University of Dundee

Andreas Jansson, Senior Lecturer, Linnaeus University

Ulf Larsson-Olaison, Lecturer, Linnaeus University

David Power, Professor of Business Finance, University of Dundee

Christine Cooper, Professor, University of Strathclyde

Robert Gray, Professor of Social and Environmental Accounting, University of St Andrews

John Ferguson, Professor, University of Strathclyde

Prem Sikka, Professor of Accounting, Essex Business School

Jeffrey Unerman, Professor of Accounting and Corporate Accountability, Head of the School of Management, Royal Holloway University of London

Yuval Millo, Professor of Social Studies of Finance and Management accounting, School of Management, University of Leicester

Karin Jonnergård, Professor, Department of Accounting and Logistics, Linnaeus University

Marie-Laure Djelic, Professor, ESSEC Business School

Paolo Quattrone, Professor of Accounting, Governance and Social Innovation, University of Edinburgh

David J. Cooper, Professor of Accounting, University of Alberta

Chris Carter, Professor of Strategy and Organization, University of Edinburgh

Pik Liew, Lecturer, University of Essex

Robert F Coles, Honorary Visiting Fellow in Management & Leadership, University of Leicester

Keith Robson, Professor of Accounting, HEC Paris

Nihel Chabrak, Associate Professor, UAEU

Lorna Stevenson, Reader in Accounting, University of St Andrews

Hugh Willmott, Professor of Management, Cass Business School, City University London and Research Professor in Organization Studies, Cardiff Business School

Jeroen Veldman, Senior Research Fellow, Cass Business School, City University London

The Modern Corporation
Statement on Company Law

SUMMARY: FUNDAMENTAL RULES OF CORPORATE LAW

Corporations play a central role in modern economies. Certain beliefs about corporations and corporate law are widely held and relied upon by business experts, the financial press, and economists who study the firm. Unfortunately, some of these widely-held beliefs are mistaken. This has led to numerous common errors in the way corporate law concepts are understood and applied.

The authors of this Summary are experts versed in a variety of national legal systems, including those of the U.S. and U.K. as well as the E.U. We provide this simple Summary of certain fundamentals of corporate law, applicable in almost all jurisdictions, in an effort to help prevent analytical errors which can have severe and damaging effects on corporations and corporate governance.

1. Corporations are universally treated by the legal system as "legal persons" that exist separately and independently of their directors, officers, shareholders, or other human persons with whom the legal entity interacts. Legal separateness or "personhood" is not a metaphor or fiction but a powerful legal reality. It ensures that corporations have certain rights, including especially the rights to own property, enter contracts, and commit torts in their own names.

2. Corporations can raise capital by issuing various types of securities. One type of security that many but not all corporations issue is stock shares, which are sold to shareholders. Shareholders own shares. Contrary to widely held 'common sense', shareholders do not own corporations; nor do they own the assets of corporations. Shareholders only own shares of stock – bundles of intangible rights, most particularly the rights to receive dividends and to vote on limited issues.

3. A shareholder can acquire shares by exchanging assets or cash that the shareholder transfers to the corporation when the shares are initially issued by the corporation in the "primary market." Alternatively, a shareholder can purchase preexisting shares from another shareholder in the "secondary market." As nearly all shares are fully paid up, only shareholders who purchase shares in the primary market directly contribute assets or cash to the corporation. Shareholders who purchase shares in the secondary market do not contribute capital (or anything else) to corporations. When they buy shares the purchase price is paid to the selling shareholder. The notion that shareholders contribute capital to corporations is thus wrong in the great majority of cases. The contribution of stock markets to new investment capital is also greatly exaggerated.

4. A key feature of corporate personhood is that corporations – as separate, property-owning legal persons – own their own assets and incur their own liabilities. Corporate assets and liabilities are separate from shareholder assets and liabilities. As a result of the 'limited liability' of shareholders the creditors of corporations can only enforce their claims against the corporation's assets, not against those of the shareholders. In reality, therefore, for shareholders, 'limited liability' means 'no liability.' Shareholders are affected by the corporation's failures only indirectly and their losses limited to any decline in the value of the shares they hold.

5. Another critical consequence of corporate personhood is that the assets of the corporation are "locked in" and protected against shareholder claims. Shareholders have no direct claim to the assets of the corporation, which they do not own. Capital lock-in is a fundamental feature of the corporate form which makes it possible for corporations to pursue long-term, large-scale economic projects under uncertain conditions. Shareholders cannot force the corporation to disgorge its assets. If they want liquidity, they must sell what they own: their shares. The sale of shares in the secondary market or the transfer of shares through inheritance does not directly affect the business of the corporation. Its assets, contracts and liabilities are left unchanged.

6. Shares typically give shareholders only limited economic rights, in particular the right to receive dividends if and when a distribution of corporate profits is legally permissible, and a dividend is actually declared by the board of directors. Directors have legal discretion to decide whether or not a dividend should be declared. Shareholders do not have the legal right to demand dividends. As a result, while it might be reasonable to describe the shareholders of a firm which is being liquidated in bankruptcy as the firm's sole "residual claimants," this is not an accurate description of shareholders in operating companies.

7. Shares typically also give shareholders limited political rights, in particular the (usually) exclusive collective right to elect the members of the corporation's board of directors. The exact scope of shareholders' political rights differs substantially from jurisdiction to jurisdiction and from corporation to corporation. For example, some corporations issue multiple "classes" of shares that give some shareholders greater voting power than other shareholders enjoy. In some jurisdictions, shareholders must vote to approve a dividend distribution (assuming one is proposed by the board of directors), while in other jurisdictions shareholders do not vote on dividends. Moreover, the practical effect of shareholders' formal political rights depends on patterns of share ownership. Shareholders exercise their voting rights far more effectively when a single large "controlling shareholder" holds all or most of the company's voting shares, than when share ownership is widely dispersed. No substantial empirical evidence indicates that one pattern of shareholding or shareholder political rights is necessarily superior to another.

8. Corporate officers and employees are agents for the corporation as a separate, property- owning legal entity. They are not the agents of the shareholders or any subset of shareholders, and are under no legal obligation to obey the directives of the shareholders or any subset of shareholders. Moreover, the law usually recognises that the medium to long term interests of this separate entity may not be synonymous with the short-term financial interests of its shareholders.

9. The attitudes of many commentators about the relationship between corporations and their shareholders are inconsistent. For some purposes, they ignore separate corporate personality and treat corporations and their shareholders as identical, arguing that directors should pursue the interests of shareholders and only the interests of shareholders, often on the legally indefensible ground that shareholders 'own' corporations. For other purposes, however, relating to shareholder liability for corporate contractual debts and tortious wrongs, they take separate corporate personality very seriously, treating corporations and their shareholders as radically separate.

10. Contrary to widespread belief, corporate directors generally are not under a legal obligation to maximise profits for their shareholders. This is reflected in the acceptance in nearly all jurisdictions of some version of the business judgment rule, under which disinterested and informed directors have the discretion to act in what they believe to be in the best long term interests of the company as a separate entity, even if this does not entail seeking to maximise short-term shareholder value. Where directors pursue the latter goal, it is usually a product not of legal obligation, but of the pressures imposed on them by financial markets, activist shareholders, the threat of a hostile takeover and/or stock-based compensation schemes.

Signatories

Lynn Stout, Professor of Corporate & Business Law, Cornell University

Jean-Philippe Robé, Professor of Law, Sciences Po

Paddy Ireland, Professor of Law, Bristol University

Simon Deakin, Professor of Law, University of Cambridge

Kent Greenfield, Professor of Law, Boston College Law School

Andrew Johnston, Professor of Company Law and Corporate Governance, University of Sheffield

Harm Schepel, Professor of Economic Law, University of Kent

Margaret Blair, Professor of Law, Vanderbilt University Law School

Lorraine Talbot, Associate Professor of law, Warwick University

Alan Dignam, Professor of Corporate Law and Honorary Member 7 King s Bench Walk Chambers, School of Law, Queen Mary, University of London

Janet Dine, Professor at the Centre for Commercial Legal Studies, Queen Mary, University of London

David Millon, J.B. Stombock Professor of Law, Washington and Lee University, Lexington, Virginia

Beate Sjåfjell, Professor, Faculty of Law, Department of Private Law. Coordinator SMART project, University of Oslo

Charlotte Villiers, Professor of Company Law, University of Bristol

Cynthia A. Williams, Osler Chair in Business Law, Osgoode Hall Law School, York University, Toronto, Canada

Marios Koutsias, Lecturer in EU Commercial Law, School of Law, University of Essex

Andrew Pendleton, Professor of Human Resource Management, University of York

Gerald (Jerry) Davis, Wilbur K. Pierpont Collegiate Professor of Management and Professor of Management and Organizations, Ross School of Business, University of Michigan

Michael Galanis, Senior Lecturer in Company Law, School of Law, University of Manchester

David Chandler, Assistant Professor of Management, The Business School, University of Colorado Denver

Andrew Keay, Professor of Corporate and Commercial Law, School of Law, University of Leeds

Marc Moore, Reader in Corporate Law, University of Cambridge

Jean Jacques du Plessis, Professor of Law, Deakin University

Andrea McLachlan, Lecturer in Commercial Law, Waikato Management School, New Zealand

Beau Lefler, Principal Lecturer, School of Business University of Hong Kong

Carrie Bradshaw, Lecturer in Law, University of York

Christopher Bruner, Professor of Law, Washington and Lee University

Thomas W. Joo, Professor of Law, University of California, Davis

Daniel JH Greenwood, Professor of Law, Hofstra University

Thomas Clarke, Professor and Director, UTS Centre for Corporate Governance

Lyman Johnson, Robert O. Bentley, Professor of Law, Washington and Lee University

Floriana Mulazzi, PhD Candidate in Business and Law, Università degli Studi di Brescia

Martin Lipton, Senior Partner, Wachtell, Lipton, Rosen & Katz

Carol Liao, Assistant Professor, Faculty of Law, University of Victoria

Rebecca Johnson, Professor of Law, University of Victoria

Anat Beck, Visiting Assistant Professor at Dickinson College

Greg Markel, Partner, Seyfarth Shaw

Wendy L Currie, Professor, Audencia Ecole de Management, France

Frank Partnoy, Professor, University of San Diego

Seamus Gillen, Director, Value Alpha

Leonardo Peklar, Director in Residence, INSEAD

Alexandre Di Miceli da Silveira, Professor of Corporate Governance, University of Sao Paulo (USP) and Fecap School of Business

Ofer Sitbon, Ph.D., Director Corporate Social Responsibility, College of Law and Business, Israel

Jean-Pierre Chanteau , Associate Professor in Economics, Université Grenoble Alpes

Angela Donaggio, Professor and Researcher, Getulio Vargas Foundation School of Law

Sergio Alberto Gramitto Ricci, Adjunct Professor of Law; Postdoctoral Associate and Assistant Director, Clarke Program on Corporations & Society, Cornell Law School and Bocconi University

Renginee G. Pillay, Lecturer, University of Essex

Roman Tomasic, Professor of Law and Visiting Professor of Company Law, University of South Australia and Durham University

Ciarán O'Kelly, Lecturer, Queen's University Belfast

Con Keating, Head of Research, BrightonRock group

Hugh Willmott, Professor of Management, Cass Business School, City University London and Research Professor in Organization Studies, Cardiff Business School

Jeroen Veldman, Senior Research Fellow, Cass Business School, City University London

Paige Morrow, Lecturer, University of Kent

The Modern Corporation
Statement on Economics

1. The changing economic conceptualisation of the corporation.
From the early decades of the twentieth century, a dominant characteristic of the modern "capitalist" corporation, especially in the United States, was the separation of asset ownership in the form of publicly traded shares from allocative control over the corporation's resources by salaried managers (Berle and Means 1932). By the 1950s some depicted managerial-controlled large enterprise as the "soulful" corporation in which the allocation of resources resulted in enhanced social welfare (Kaysen 1957; Mason 1959). In the 1960s, however, some conservative academics looked to market forces, dubbed the 'market for corporate control', to ensure that managers as employees would give primacy to shareholders in the allocation of corporate resources (Manne 1962). This market for corporate control could enable hostile takeovers in which shareholders who accumulated large public equity stakes in a company could discipline managers to allocate resources in ways that "the market" deemed to be efficient. The notion that market allocation could control managerial organization was then developed theoretically based on the conceptualisation that the corporation (and indeed any firm) could be conceptualised as a 'nexus of contracts' or a 'collection of assets' (Cheung 1983; Grossman and Hart 1986; Jensen and Meckling 1976). Rather than view the corporation as a social organization with its unique history and competitive capabilities in which public shareholders had come to play a peripheral role (Chandler 1962 and 1977), neoclassical economists conceptualised the corporation as a set of voluntary contracts among owners of resources and as a portfolio of assets with different market-determined rates of returns (Bratton 1989; Ireland 1999).

2. Maximising Shareholder Value (MSV) as the sole objective of corporate governance.
This conceptualisation of the corporation to fit with the dominant neoclassical theory of the market economy had two core implications. First, it made market-based financial metrics central to corporate strategy and to relations within the corporation (Daily et al. 2003; Davis 2009; Ireland 2009; Lazonick 1992). Second, shareholders could be portrayed as the only risk-bearers since they were the only participants in the corporation who did not get a guaranteed market-determined return for their productive contributions (Blair, 1995). On the assumption that risk results in superior overall economic performance, the central problem became how to align the interests of managers as agents with those of shareholders as principals. The 'stick' was the hostile takeover exercised through the market for corporate control (Jensen 1986). But these economists also argued that the 'carrot' of stock-based pay could induce executives to allocate corporate resources to maximize shareholder value (Jensen and Murphy 1990). By the 1990s the triumph of MSV as an ideology of corporate governance was virtually complete, with senior executive pay tied to stock-price performance, legitimized by MSV ideology (Davis 2009; Lazonick and O'Sullivan 2000).

3. Short-termism prevails and investments in productive capability diminish.
A view of corporate governance focused on immediate market metrics and MSV reduces the overall time horizon of strategic decision making (Hellman 2005; Useem 1999; Stout 2012), encourages an increased emphasis on cost management and financial engineering (Krippner 2005; Froud et al. 2002), and invites increasing asset churn (mergers, acquisitions, buyouts and demergers) (Davis, 2009). MSV legitimates the replacement of a 'retain and reinvest' allocation regime that invests in productive capabilities with a 'downsize and distribute' regime that downsizes the labour force and distributes the resultant 'free' cash flow to shareholders (Lazonick and O'Sullivan 2000). MSV thus diverts the use of corporate cash flows away from productive investment and supports a decline in innovativeness (Dobbin and Jung 2010).

4. Redistribution of income to public shareholders and corporate executives.
In the United States, under MSV, for the 251 companies in the S&P 500 Index in January 2013 that were publicly listed back to 1981, the buyback payout ratio – that is, repurchases as a proportion of net income – was less than 5% in 1981-1983 but 39% in 2010-2012, with a three-year peak of 70% in 2006-2008. From

the 1980s to the 1990s to the 2000s, the dividend payout ratio declined from 50% to 44% to 41%, while the buyback payout ratio rose from 22% to 35% to 50% (Lazonick 2014b). The top executives who made those allocation decisions were the prime beneficiaries through their stock options and stock awards; in 2012 the remuneration of the 500 highest paid executives averaged $30.3 million of which 82% came from stock-based pay.

5. Increased within-country income inequalities…

Soaring executive pay has been the main driver of concentration of income among the top 0.1% of households in the United States (Piketty 2014). Beyond the direct redistribution of income in favour of shareholders and corporate executives, a wider macroeconomic consequence of the way in which company profits are divided is a steep increase in income inequalities between labour and capital within economies. From the early 1980s, productivity growth has been outstripping real wage growth, leading to a strongly declining factor share of labour in national income in almost all Western countries over the past thirty years (Davis, 2009; Dobbin and Zorn 2005; Froud et al. 2002; Froud and Williams 2007; Ireland 2005; Ireland 2009; Lazonick and O'Sullivan 2000; Lazonick 2014b; Stout 2012).

6. …through a race to the bottom in employment conditions and taxation powers.

This trend towards growing structural income inequalities is closely related to shareholder primacy. MSV leads to a decline in stable, well-paid employment opportunities (Widmer 2011; Thompson 2013). Of particular importance has been the end of the employment norm of a career with one company that prevailed at most corporations throughout the 1980s (Lazonick 2013). In addition, corporate governance models based on MSV legitimize the use of international tax structures through tax havens as a strategic imperative, shaping global value chains (Froud et al 2002; Milberg 2008). This pursuit of MSV erodes the tax bases of the jurisdictions that provide for high-quality physical and technological infrastructure, education, health and welfare and educated workers that corporations rely on for their continued operations (Ireland 2005 and 2009; Martin 2010; Stout 2012; OECD 2013). The strategic imperatives of MSV at the firm level thus impact directly on the political and economic framework in which firms, states and trade blocs operate.

7. Marginalisation of investments by other stakeholders in the economy.

MSV runs on the assumption that shareholders are the only participants in the economy who bear risk, that is, they are the only investors without a guaranteed return (Blair 1995). However, taxpayers, workers and governments make risky investments in productive capabilities on a regular basis to create value-creating capabilities that enable the business enterprise to generate competitive products. These stakeholders, therefore, hold a legitimate economic claim to profits, if and when they occur. But MSV ignores these risky investments by stakeholders, while according primacy to public shareholders who typically merely buy and sell outstanding shares (Aglietta and Rebérioux 2005; Lazonick 2014a).

8. Economic instability rather than economic efficiency.

There is no doubt that MSV has triumphed as a theory of resource allocation in favour of specific interest groups. It has contributed to a concentration of income at the top. Far from promoting economic efficiency, MSV is a core factor in growing macroeconomic imbalances, instability and the erosion of innovative capability (Lapavitsas 2013; Stockhammer 2004 and 2012). It is destructive of the long-term relations with constituencies upon which corporations ultimately rely and does not even benefit the mass of public shareholders over the long run as the massive distributions to shareholders and the explosion of executive pay have undermined the innovative capability of the corporate economy (Lazonick 2013 and 2014b).

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Signatories

William Lazonick, Professor, University of Massachusetts

Stephanie Blankenburg, Senior Lecturer in Economics, SOAS

Julie Froud, Professor of Financial Innovation, University of Manchester

Mary O'Sullivan, Professor of Economics, University of Geneva

Catherine Sauviat, Senior Researcher, Institut de Recherches Economiques et Sociales

Antoine Rebérioux, Professor of Economics, University of French West Indies, Research fellow at the CREDDI / LEAD and at EconomiX (U. Paris West)

Ha-Joon Chang, Reader in the Political Economy of Development, University of Cambridge

Mariana Mazzucato, RM Phillips Professor in the Economics of Innovation, SPRU, University of Sussex

Grahame Thompson, Visiting Professor, Copenhagen Business School and Emeritus Professor, Political Economy, Open University

Professor Steve Keen, Head of Economics, Politics & History, Kingston University

Paolo Quattrone, Professor of Accounting, Governance and Social Innovation, University of Edinburgh

Christopher May, Professor of Political Economy, Lancaster University

Neil Lancastle, Senior Lecturer, De Montfort University

Barbara Czarniawska, Professor, University of Gothenburg

David Knights, Professor, Lancaster University

Laura Horn, Associate Professor, Roskilde University

Ilan Talmud, Associate Professor, University of Haifa

Oleg Komlik, Lecturer, Ben-Gurion University

Henning Schwardt, Post-Doctoral Fellow, University of Bremen,

Keith Robson, Professor, HEC Paris

Tony Hines, Professor, Faculty of Business & Law, Manchester Metropolitan University

Robert E. Wright, Nef Family Chair of Political Economy, Augustana College SD

Muir Houston, Lecturer, University of Glasgow

Mehmet Ali Dikerdem, Associate Professor, Middlesex University

Maureen Boland, Sessional Lecturer, Curtin University

Marie-Laure Djelic, Professor, ESSEC Business School

Brendan K.O Rourke, Research Fellow, College of Business, Dublin Institute of Technology

Nitasha Kaul, Visiting Fellow, University of Westminster

John Holmwood, Professor of Sociology, Visiting Member, Institute for Advanced Study, Princeton and Campaign for the Public University

Timothy Kuhn, Associate Professor, University of Colorado Boulder

Patrick Ainley, Professor of Training and Education, University of Greenwich

Dawa Sherpa, Research Scholar, Jawaharlal Nehru University, New Delhi

Philip Welch, Professor of Mathematics, University of Bristol

Keith Reader, Professor Emeritus, University of London Institute

Jan Culik, Senior Lecturer, University of Glasgow

Kevin McSorley, Senior Lecturer in Sociology, University of Portsmouth

Nadia Edmond, Principal Lecturer, University of Brighton

Steve Fleetwood, Professor, University of the West of England

Andrew M. Fischer, Associate Professor, Institute of Social Studies, The Hague

Guillaume Delalieux, Associate Professor in Management , Sciences Po, Lille

Helena Desivilya Syna, Associate Professor, The Max Stern Yezreel Valley College

Dennis Leech, Emeritus Professor of Economics, University of Warwick

Michael Loughlin, Professor of Applied Philosophy, MMU Cheshire

Mark Addis, Professor of Philosophy, Birmingham City University

Willy Maley, Professor, University of Glasgow

David Wield, Professor of Innovation and Development, Open University

Roger Brown, Emeritus Professor of Higher Education Policy, Liverpool Hope University

Machiko Nissanke, Professor of Economics, SOAS, University of London

Stuart Farquhar, Senior Lecturer in Finance & Economics, University of Wolverhampton

David J. Cooper, Professor of Accounting, University of Alberta

Chris Carter, Professor of Strategy and Organization, University of Edinburgh

Meera Sabaratnam, Lecturer in International Relations, SOAS

Maria Aluchna, Professor, Warsaw School of Economics

Roger Gill, Visiting Professor, Durham University Business School

Alice Bryer, Assistant Professor of Accounting, IE Business School

Peter Beusch, Assistant Professor, Gothenburg University

Nabil Harfoush, Assistant Professor, OCAD University, Toronto

Hein Vrolijk, Lecturer, University of Groningen

Bill Cooke, Professor of Strategic Management, University of York

Michael Pirson, Associate Professor, Fordham University

David Jacobs, Associate Professor of Labor and Sustainability, Morgan State University, Baltimore, USA

Alessia Contu, Professor of Management, University of Massachusetts

Nihel Chabrak, Associate Professor, UAEU

Paddy Ireland, Professor of Law, University of Bristol

Julie Matthaei, Professor of Economics, Wellesley College

Vincenzo Bavoso, Lecturer in Commercial Law, The University of Manchester

Tanweer Ali, Lecturer, Empire State College, State University of New York

Lorenzo Massa, Assistant Professor (WU), Scientist (EPFL)

David Gindis, Senior Lecturer in Economics, University of Hertfordshire

Michael Smith, Head of Business Programmes, Initiatives of Change UK

Jean-Pierre Chanteau, Associate Professor in Economics, Université Grenoble Alpes

Robert F Coles, Honorary Visiting Fellow in Management & Leadership, University of Leicester

Marcello Palazzi, Co-founder B Lab Europe, Executive Fellow Enterprise Acceleration at Rotterdam School of Management, Erasmus University

Roger L. Martin, Rotman School of Management, University of Toronto

Hugh Willmott, Professor of Management, Cass Business School, City University London and Research Professor in Organization Studies, Cardiff Business School

Jeroen Veldman, Senior Research Fellow, Cass Business School, City University London

The Modern Corporation
Statement on Management

BACKGROUND

The rise of modern corporations has been accompanied by an expansion of salaried executives who have replaced owner-managers. With this expansion, the new class of managers/executives came to regard themselves as stewards of large and complex corporations, and not principally or exclusively as agents for the owners. Emerging as a self- styled 'profession', there was a continuous debate around the necessity for the corporation to be responsible to the collective and to its stakeholders. During long parts of the twentieth century the professed intent was to balance and synthesize a plurality of interests in order to ensure the long term survival and success of the corporation, pursue national strategic interests, create employment, support networks of suppliers, develop new technology as well as create an adequate or satisfactory return for shareholders (Marens, 2012; O Sullivan, 2001).

The rise of agency theory in the late 1970s and early 1980s challenged this understanding of management. Arguing that markets rather than managers provide an efficient allocation of scarce resources, it pushed an agenda in which the corporation had to pursue one single goal – the maximization of shareholder value (MSV) and that managers should be incentivised to respond to (financial) market forces. This idea gradually gained traction through teaching in US economics departments and business schools and has today become a highly influential doctrine which infuses senior executive thinking, investors thinking, corporate governance theory and public policy and regulatory decision making (Khurana, 2007; Harvey, 2009).

IMPACTS OF MSV

1. Shareholders without commitment. The distancing of shareholders from the long- term prospects of the firm is enhanced through limited liability, the liquidity of their investment, and, more recently, high velocity trading. This means that the commitment of shareholders is no longer to firms, but to short-term profits only (Davis, 2009; Muzrichi, 2010; Mayer, 2013).

2. Senior management without commitment. The rise of MSV means CEOs find themselves in increasingly precarious positions with shorter tenure. As a result, senior executives rapidly move between firms which means that they have a shorter term decision making horizon, and rarely stay in a position long enough to deal with the problems that their initiatives aimed at increasing shareholder value creates (Useem, 1993, 1996; Dobbin and Zorn, 2005).

3. Poor quality management. The focus on MSV has led many companies to adopt generic management practices. The most obvious example of this is firms chasing so- called celebrity CEOs who tend to be highly paid but tend to fail in their assignments. Research suggests that firms tend to be more successful when they rely on firm or industry specific management rather than generic management practices (Khurana, 2004; Ghoshal, 2005).

4. Race to the bottom in employment conditions. Firms with a strong focus on maximizing shareholder value tend to concentrate upon squeezing costs to produce immediate returns, and so reduce the quality of employment (e.g. wages, pensions provision, and job security) when it is not outsourced, offshored, etc. This has a tendency to encourage regulatory dumping as different countries tend to create the conditions that will allow particular corporations to do this (Davis, 2009).

5. Increasing inequality within the firm. The focus on MSV has led to a rapid divergence between the rewards received by those at the top and those at the middle and the bottom of firms. As a result, the rewards from productivity gains during the past two decades have gone to top management and shareholders rather than to employees in the form of wages and benefits. This is reflected at the macro

(societal) level with well documented increases in within-country inequalities in almost all Western countries over the past thirty years or so leading to a return towards increasingly rigidified class structures allowing for less and less mobility in many of those countries (McFall and Percheski, 2010).

6. Declining innovation. The focus on maximizing shareholder value has led many firms neglecting investing in areas like research and development in favour of ploughing money into measures which create immediate increases in shareholder value (such as paying dividends and share buy backs). The result is that future performance which comes from spending on innovation is effectively undermined (Lazonick and O Sullivan, 2000).

7. Restructuring efforts. An emphasis on narrow financial performance encourages the use of corporate restructuring efforts, such as mergers, acquisitions, buyouts and demergers in order to impress financial markets (Krippner, 2010). The vast majority of organizational change efforts are motivated by the imperative to create value for shareholders and fail to deliver long term productive capability. Such restructuring efforts tend to divert attention from the core business without receiving the benefits and result in lay offs and plant closures which have devastating effects on relations with stakeholders and thus destroy shareholder value in the longer term (Davis, 2009).

8. Increased systemic risks. The combination of MSV with limited liability leads to systemic moral hazard. the shareholders of corporations benefit from the short term value created by inconsiderate risk taking while being shielded from the medium/long term losses for the corporation and for society that may come from this kind of inconsiderate risk taking: privatization of profits and socialization of costs (Djelic, 2013). Some examples include banks which create toxic financial products in order to maximize returns to shareholders in the short term, but created huge problems for the wider financial system in the longer term. The cost of the failure has been born by other groups in society, particularly ordinary savers and public service and benefit recipients (Crouch, 2011).

RETHINKING MANAGEMENT PRACTICES

Backed by questionable notions of law and economics which have become embedded in corporate governance and accounting regulations, many managers now act on the basis of a folk wisdom that shareholders are the only important constituency, which leads them to deliver short-term strategic decisions, high executive remuneration, and offshoring strategies with regard to manufacturing and finance. This comes at the detriment of broader and longer- term perspectives on the purpose of the firm in modern societies and has created worse management and less competitive companies. It is ironic that the obsession with MSV has actually destroyed long-term shareholder value and that it has significantly decreased the average life span of corporations during the past 30 years (Davis, 2009).

The time has come to rethink the over-riding commitment to MSV. This involves revitalising a model in which companies are understood to have multiple and often competing goals – with producing returns to shareholders as only one of them.

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Signatories

Hugh Willmott, Research Professor in Organisational Studies, Cardiff business School

Marie-Laure Djelic, Professor, ESSEC Business School

Andre Spicer, Professor of Organisational Behaviour, CASS Business School

Martin Parker, Professor of Organisation and Culture, University of Leicester

Charles Perrow, Emeritus Professor of Sociology, Yale University

Derek S. Pugh AcSS, Emeritus Professor of International Management, Open University Business School

John-Christopher Spender, Visiting Professor ESADE, Visiting Professor Lund University School of Economics & Management

Jean-Pascal Gond, Professor of Corporate Social Responsibility, Cass Business School, City University London

René ten Bos, Professor, Department of Management Sciences, Nijmegen School of Management

Armin Beverungen, Junior Director at the Digital Cultures Research Lab, Leuphana University Lüneburg

Marta B. Calás, Professor of Organization Studies and International Management, Isenberg School of Management, University of Massachusetts – Amherst

Grahame F. Thompson, Professor, Department of Business and Politics, Copenhagen Business School, Denmark

Glenn Morgan, Professor, Cardiff Business School

Stewart Clegg, Professor and Research Director Centre for Management and Organization Studies, University of Technology Sydney (UTS)

Brendan McSweeney, Professor of Management, Royal Holloway, University of London

Pasi Ahonen, Lecturer in Organisation Studies, Swansea University school of Management

Philip Hancock, Professor, Essex Business School, University of Essex

Barbara Czarniawska, Professor of Management Studies, Gothenburg Research Institute, University of Gothenburg

Howard Gospel, Professor, Department of Management, King s College, University of London, and Associate Fellow, Said Business School, University of Oxford

Tyrone S Pitsis, Reader in Strategic Design, Newcastle University

Scott Taylor, Reader in Leadership & Organization Studies, Birmingham Business School, University of Birmingham

Christopher Land, Reader in Work and Organization, Essex Business School

Stevphen Shukaitis, Lecturer in Work & Organization, Essex Business School, University of Essex

Ace Simpson, Lecturer in Organisational Behaviour, UTS Business School, Sydney

Tom Keenoy, Emeritus Professor, Cardiff Business School

Sheena Vachhani, Lecturer, University of Bristol

Laurent Taskin, Professor of Organization and human resource studies, Louvain School of Management, Belgium

George Cheney, Professor of Communication Studies, Kent State University, Kent, Ohio

Nicolas Bencherki, Assistant Professor of Organizational Communication, State University of New York

Véronique Perret, Professor of Strategic Management, Dauphine University, Paris

Florence Allard-Poesi, Professor of Management, IRG, University of Paris-East Créteil, France

Florence Palpacuer, Professor in Management Studies, University of Montpellier, France

Juan Espinosa, Lecturer, School of Commerce, Pontificia Universidad Católica de Valparaíso, Chile

David Jacobs, Associate Professor of Labor and Sustainability, Graves School of Business and Management Morgan State University, Baltimore, Maryland

Jo Brewis, Professor of Organization and Consumption, University of Leicester School of Management

Daniel King, Senior Lecturer, Nottingham Trent University Prem Sikka, Professor of Accounting, Essex Business School

Thomas Wainwright, Lecturer in Strategy & Innovation, Programme Director for Management with Entrepreneurship, Southampton Management School

Torkild Thanem, Professor of Management & Organization Studies, Stockholm University School of Business

Walter Jarvis, Lecturer in Management & Organisations, University of Technology, Sydney (UTS)

Casper Hoedemaekers, Lecturer in Work and Organisation, University of Essex

Jason Glynos, Political Theory Division, Department of Government, University of Essex

Ian Towers, Professor, SRH Hochschule Berlin

Samuel Mansell, Lecturer in Business Ethics, University of St Andrews

Laure Cabantous, Professor of Strategy and Organization, Cass Business School, City University London

Bill Cooke, Professor of Management and Society, Department of Organization, Work and Technology, Lancaster University Management School; Vice Chair Research and Publications, British Academy of Management

Richard Marens, Professor, Sacramento State University

Iain Munro, Professor of Leadership & Organizational Change, Newcastle University Business School

Oleg Komlik, Lecturer, Ben-Gurion University

Ken Weir, Lecturer, University of Leicester

Simon Lilley, Professor and Head of the School of Management, University of Leicester

Ludovic Cailluet, Professor of Strategy and Business History, EDHEC Business School

Nihel Chabrak, Associate Professor, College of Business, United Arab Emirates University

Tony Huzzard, Professor, Department of Business Administration, Lund University School of Economics and Management

Ozan Nadir Alakavuklar, Lecturer, Massey University School of Management

Chris Mowles, Professor of Complexity and Management, Hertfordshire Business School

Jonathan Murphy, Senior Lecturer, International Management, Cardiff Business School

Joan Le Goff, Professor, Vallorem, Tours School of Management (IAE), Tours

Ruth Slater, Lecturer, School of Management, University of Central Lancashire

Maria-Carolina Cambre, Assistant Professor of Sociology, King's University College, London ON Canada

Susana Velez-Castrillon, Assistant Professor of Management, University of West Georgia, GA United States

Djamel Eddine Laouisset, Professor, Alhosn University, Abu Dhabi, UAE

Stuart M Schmidt, Professor, Fox School of Business, Temple University

Ismail Ertürk, Senior Lecturer in Banking, Manchester Business School, University of Manchester

Alan Meyer, Emeritus Professor of Management, University of Oregon

Timothy Kuhn, Associate Professor, University of Colorado Boulder

Isabelle Huault, Professor of Organization Studies, Université Paris Dauphine

Hovig Tchalian, Visiting Assistant Professor of Management and Executive Director, Institute for the Practice of Management, Claremont Graduate University, Drucker-Ito School of Management

Thomas Clarke, Professor of Management and Director of the Centre for Corporate Governance, UTS Sydney

Isabelle Cassiers, Professor, Senior Research Associate FNRS

Jean-Pierre Chanteau, Maître de Conférences HDR, Université Grenoble-Alpes

Julien Malaurent, Assistant Professor of Information Systems, ESSEC Business School

David J. Cooper, Professor of Accounting, University of Alberta

Dermot O Reilly, Lecturer, Lancaster University

Michael Pirson, Associate Professor, Fordham University

Nidhi Srinivas, Associate Professor, The New School University

Duarte de Souza Rosa Filho, Adjunct Professor, Universidade Federal do Espírito Santo, Brazil

Alex Faria, Associate Professor, EBAPE/FGV

Raza Mir, Professor, William Paterson University, USA

Carolina Serrano Archimi, Associate Professor of OB, Aix-Marseille Graduate School of Management-IAE, Aix-Marseille Université

George Cairns, Professor, RMIT University

Kevin Tennent, Lecturer in Management, University of York

Daniel Doherty, Senior Lecturer, Leadership, Work and Organisation, Middlesex University Business School

Rick Wartzman, Executive Director, Drucker Institute, Claremont Graduate University

Pik Liew, Lecturer, University of Essex

Vlatka Hlupic, Professor, University of Westminster

Annick Ancelin-Bourguignon, Professor, ESSEC Business School

Joe O'Mahoney, Reader, University of Cardiff

Suhaib Riaz, Assistant Professor of Strategic Management, University of Massachusetts-Boston

Ismael Al-Amoudi, Senior Lecturer, University of Cardiff

Oscar Montiel, Professor of Management and Entrepreneurship, Universidad Autonoma de Ciudad Juarez, Mexico

Steve McKenna, Professor, York University, Toronto

Herman van den Bosch, Professor, Open Universiteit

Chris Rees, Professor of Employment Relations, Royal Holloway, University of London

Emma Bell, Professor of Management and Organisation Studies, Keele University

Olivia Kyriakidou, Assistant Professor, Athens University of Economics and Business

Abby Cathcart, Associate Professor, Queensland University of Technology, Australia

Rory Ridley-Duff, Reader in Co-operative and Social Enterprise, Sheffield Hallam University

Lorna Stevenson, Reader in Accounting, University of St Andrews

Andreas Kornelakis, Senior Lecturer in International Management, King's College London

Jeroen Veldman, Senior Research Fellow, Cass Business School, City University London

The Modern Corporation
Statement on Politics

1. Corporate governance is political. Corporate governance is about who gets to have a say in how businesses are organized and how their fruits are divided among different constituencies, particularly owners and workers. National and international politics, laws and regulations shape both the issue of decision- making (e.g., in several EU countries labor is represented on the board) and the issue of division. In this framing, questions about the "purpose of the corporation" are distinctly political, because the organization of corporate governance is a consequence of political decisions; a stake of political struggles, creating some of the basic ground rules over how the proceeds from business are distributed; and a source of political interests and conflicts because actors' position in the system of business and finance shape who benefits and who has a voice in economic choices. (Davis 2009; Gourevitch & Shinn 2005)

2. Corporate governance shapes the conditions for politics. The purpose of the corporation is also a political matter because policies concerning corporate governance can shape and change the very conditions for politics itself in the form of the way national governments relate to the global economy and global value chains, the applicability of labor laws, national income levels, national tax incomes, conditions for etc. (Montgomerie & Williams 2009; Erturk et al. 2004; Froud et al. 2006; Froud et al. 2007; Soederberg, 2010; Horn, 2011)

3. MSV remains central to regulation. In spite of the well-known theoretical deficiencies of MSV, and in spite of the 2008 crisis and the footing of the bill by states through fiscal austerity measures with massive consequences for their own fiscal position and policy options, regulation in the EU remains underpinned by a commitment to MSV (Engelen et al., 2011; also see accounting memo).

4. Privatization of gains and the socialization of losses. Convinced of the efficacy of shareholder value, banking and financial institutions are back to business as usual under the flag of MSV. The ostensible result of the continuing acceptance of MSV in the political domain has thus been the ongoing privatization of gains and the socialization of losses, leaving policy makers to struggle with the need to reduce state debt in combination with continued tax avoidance and pressures to further reduce the fixed costs of labour (Blyth 2013; Grant & Wilson 2012; Schmidt et al. 2013).

5. Indirect effects. Corporate governance has pervasive effects on the wider political landscape by providing the basis for the formulation of policies and regulations, particularly with regard to company law, employment law, and financial regulation and shapes political perceptions on issues such as tax avoidance, the use of precarious labor contracts and executive remuneration (Overbeek et al., 2007). In this sense, MSV has a structural effect on increasing precariousness of employment, declining conditions for employees and welfare rights, the erosion of the tax base for education, health and welfare provisions, and a massive growth in income and wealth inequalities (Crouch 2013; Emmenegger et al. 2012).

6. Narrowing and undercutting of the EU growth agenda. The continued focus on MSV as the basis for policy and regulation forces policy makers to struggle with pressures to reduce the fixed costs of labour and reduce national tax burdens, leading to the erosion of the tax base for education, and health and welfare provisions. This narrows the Lisbon strategy by moving away from the recognition, which has a long history, particularly in the currently most competitive EU member states, that globally competitive firms are built on social partnerships and dynamic inter-firm networks where the role of states and the EU is to establish and maintain institutions in the sphere of education, science and innovation, health, welfare, and finance which facilitate this. (Ruigrok and van Tulder 1995, Boyer and Freyssenet 2006). Cutting back on these institutions threatens the very conditions and institutions that are necessary if the EU economies are to survive the challenge of the changing global economy.

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7. Implications for regulation. MSV is now cemented in many corporate governance regimes throughout the world though there remain notable exceptions such as the German co-determination system. The dominance of MSV is reinforced in the transnational sphere by global development institutions such as the World Bank, the G20 and the Financial Stability Board (Soederberg, 2003).

8. A profound lack of policy alternatives undermines democratic legitimacy. The consequences of MSV in corporate governance regulation are massive. The ipso facto assumption that corporate governance regulation needs to be justified primarily by reference to the goal of maximizing shareholder value means that politicians have increasingly removed themselves from any critical assessment of firm level strategies and control, leading to an inbuilt bias towards policy measures that push MSV as the basis for corporate governance and EU policy (Horn 2011). Without a new vision of MSV and corporate governance more broadly as political issues, the new EU Parliament in 2014 is likely to reflect this state of affairs. Because MSV is a deficient theoretical assumption, which is a root cause for many contemporary policy problems, such as inequalities and the decline of state services, treating this issue as secondary to maintaining the conditions for the maximization of shareholder value can lead to public disillusion with mainstream politics in the EU.

9. Conclusions. For these reasons, a debate must be opened about the purpose of the corporation in order to set the framework for a variety of policies with regard to social welfare, labour and environmental concerns (Blackburn 2005, Vitols and Kluge 2011).

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Signatories

Glenn Morgan, Professor of International Management, Cardiff Business School

Susanne Soederberg, Professor and Canada Research Chair, Queen's University

Dieter Plehwe, Research Fellow, Wissenschaftszentrum Berlin fuer Sozialforschung

Laura Horn, Associate Professor, Roskilde University

Bob Jessop, Distinguished Professor of Sociology, Co-Director of the Cultural Political Economy Research Centre, Lancaster University

Andreas Nölke, Professor of Political Science, Goethe University Frankfurt, Germany

Hugo Radice, Life Fellow, University of Leeds

E. Bastiaan van Apeldoorn, Reader in International Relations at the Department of Politics and Public Administration, VU University Amsterdam

Sigurt Vitols, Head of the Project Group "Modes of Economic Governance", Wissenschaftszentrum Berlin für Sozialforschung

John W. Cioffi, Associate Professor, Department of Political Science, University of California

Gerald (Jerry) Davis, Wilbur K. Pierpont Collegiate Professor of Management and Professor of Management and Organizations, Ross School of Business, University of Michigan

Timothy Kuhn, Associate Professor of Communication, Univ. of Colorado Boulder

Jean-Pierre Chanteau, Maître de Conférences HDR, Université Grenoble-Alpes

Dermot O'Reilly, Lecturer, Lancaster University

Pik Liew, Lecturer, University of Essex

Nihel Chabrak, Associate Professor, UAEU

Muir Houston, Lecturer, University of Glasgow

Nitasha Kaul, Assistant Professor in Politics and International Relations, University of Westminster

Tanweer Ali, Lecturer, Empire State College, State University of New York

Bronwen Morgan, Professor of Law, UNSW Australia

Lorna Stevenson, Reader in Accounting, University of St Andrews

Hugh Willmott, Professor of Management, Cass Business School, City University London and Research Professor in Organization Studies, Cardiff Business School

Jeroen Veldman, Senior Research Fellow, Cass Business School, City University London