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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.

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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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