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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.

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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