M. Aglietta and A. Rebérioux, Corporate Governance Adrift. A Critique of Shareholder Value

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Alpar Lošonc*

Originating as a French book published in 2001, this English edition incorporates the Enron scandal and such European equivalents as Parmalat in Italy and France Telecom. Aglietta and Reberioux carry out their analysis of the doctrine of shareholder value by discussing its financial and information technology and globalization contexts. Favoring a European over US model of governance, they deconstruct current capitalism and its underlying ideology. Thus, the ambition of the authors is to shed light on the relevant tendencies of the present-day capitalism and to practice the critique concerning the finance-driven capitalism and the shaping of the behavior of firm's under corporate governance. Actually, this book comments and draws conclusions on questions which address fundamental problems.

Aglietta is very well known as one of the founders of the *régulation* approach to capitalist economic systems. His *A Theory of Capitalist Regulation* was a seminal source for this literature. The *régulation* approach is a general theory of contemporary capitalism, and it does especially contain some monetary theory with the suggestion that money is to be seen as one of the canonical institutional or structural forms, through which particular growth models are interpreted. The others are the employment relation, the pattern of enterprise competition and price formation, the structure of state intervention and the international regimethe relationship between governance regimes and accounting standards, and their macroeconomic effects.

The idea on the shareholder value is not new (it is only the reinterpretation of the old ideas), but it is our task to problematize it in the new context. The defenders of the shareholder sovereignty often express the idea that the firm is a one-purpose-institution. They characterize the capitalism by the transfer from the institutional aspects of financial institutions to industrial institutions which renders shareholder value to be the only goal of the firm. They think that in the financial institution, shareholder value is the main criterion and control variable of this industry. The aim of the mentioned transfer from the

* Faculty of Technical Sciences, Department for Social Sciences, Novi Sad: corna@EUnet.yu
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financial institution to the industrial institution is to promote the shareholder value principle to being the purpose the firm. In the well-known version of the shareholder value approach Jensen and Mackling take the residual and the book-keeping of the firm's success for the firm's ultimate purpose. Michel Aglietta and Antoine Rebérioux analyze the legal origins of this notion and demonstrate the contradictions of outside control, the real collusion between management and market finance, the inevitable duplicity this implies and the risks of crisis it presents. Despite the resilience of national institutions and practices there are increasing signs that national systems of corporate governance are giving way to an idealized American model of shareholder activism and liquid equity markets. These pressures are ideologically backed by 'shareholderism'.

As we see, the debate on shareholder value, in fact, belongs to the discussion of the goals of the firm. At the same time, the discussions in this book could usefully be linked to wider topical debates on recently developed forms of capitalism, too. Shareholder value assists to legitimize the dominance of shareholders over other stakeholders and the authority of a capital market view of the firm over an industrial one. The Economic Value Added (EVA) indicator is emblematic of shareholder sovereignty insofar as it theoretically underlies the demands and power of finance capital. Corporate governance is the set of behaviors which induce the firm to maximize shareholder value. The maximization of the shareholder value as the ideology entails a shift in control over businesses with far-reaching macroeconomic consequences. In addition, shareholder value is the norm of the transformation of capitalism which has promoted certain system of public valuation and behavior.

In the radical variety of the shareholder value approach the spill-over from the financial institutions to the other spheres of the economy means that the shareholder value maximization is promoted as the leading principle of the recent capitalism. This type of capitalism is called by the authors of this book as finance-driven capitalism. The authors prove that the certain versions of the shareholder value maximization create perverse incentives for the management to take more interest in speculation than in production. Besides, these versions result in a certain shorttermism in managing the firm, in looking at the shareholder value for every report on the firm's achievement. (quarterly reports). Finally, the authors suggest that the shareholder value can be considered to be the purpose of the firm only in a much mediated way.

The doctrine of shareholder sovereignty, which is rooted in legal precepts, makes the firm an object of ownership; the shareholders, as the subjects of this ownership, thus possess real property rights over the firms. Economic analysis justifies this sovereignty in terms of the risks shareholders assume relative to other parties (employees, creditors, etc.) involved in the entrepreneurial activity. This doctrine has served as the basis for the legal principles imposed on companies quoted on the U.S. stock market since the early 20th century and it is particularly influential in the area of stock-exchange law, which originated at federal level The doctrine of shareholder sovereignty generates tension, however, with the basic pillar of finance-driven capital: the promotion of the liquidity of capital markets. According to the authors, this situation brings out one essential feature of the governance specific to finance-driven capitalism: the absence of an opposition force within the company. The authors prove that the same is true for the so-called gatekeepers: just as courts, these actors are *exterior* to the firm. Outside the firms, they have little to say in managerial decisions. In addition, they can only monitor a firm's behavior *ex post*, the limits of which were evident in the Enron-era financial scandals. The question of the board of directors perfectly illustrates this contradiction (the purpose to combine liquidity, i.e. exteriority, and control): in order to prevent collusion between the controllers (board members) and the controlled (managers), the independence of the former becomes a cardinal virtue.

There are different authors who predict that the other models of governance (French, German, Japanese, etc.) will converge relatively quickly to US standards. This thesis appears to Michel Aglietta and Antoine Reberioux as erroneous, in both its normative and positive (empirical) foundations: shareholder value is not a good principle of governance, nor is it establishing itself throughout the world. The authors present the US, German and French models and underline their principal differences. They aim to highlight the elements that make up these models, as brought out by the comparative literature on this subject. Besides, they appraise the way in which current transformations in the financial sphere are reshaping these elements. In addition, they also focus our attention on movements outside the financial sphere that may either reinforce or weaken the continental European model. As we know, the basic factor of distinction between the US model and the continental European model lies in the distribution of share ownership. Generally, the US model is characterized by wide dispersion of ownership and by liquid capital markets, dominated by investment funds (mostly pension funds and mutual funds). The essential properties of the continental European model, on the contrary, are relatively narrow capital markets, the presence of large block holdings and cross-shareholdings between firms. As a result, shareholders are protected more by financial market law than by corporate law. In accordance with the authors, the US model of governance is characterized by the importance it accords to the liquidity of financial markets. Neither corporate nor labour laws really affect the discretionary power of managers; control of these managers therefore relies decisively on the regulatory force of the capital markets. The most characteristic trait of the German model, for example, is the position reserved for workers in the matter of corporate governance, through the codetermination system (the *Mitbestimmung*).

It is on the basis of such analysis that Michel Aglietta and Antoine Reberioux are able to pass an overall judgment on the thesis of convergence. In conclusion, they offer a critical assessment of shareholder value from a normative point of view, through an analysis of the Enron-era financial scandals. They highlight the intrinsic limits of shareholder sovereignty.

The ‘end of history’ thesis of corporate governance, besides the fact that it adheres uncritically to the doctrine of shareholder value, is the product of a flawed interpretation of globalization, according to which the model that appears to have dominated during a given period (the US model of the second half of the 1990s) is imposing itself on an international scale. On the contrary, the authors of this book have demonstrated that globalization involves a process of confrontation of supra-national phenomena, especially the integration of financial markets, with more local, continental, national or regional regulations. In this respect, the convergence of the European model of governance is far from established: although certain elements are indeed moving closer to the US model, factors of resistance, or even of divergence, are equally important. Despite the resilience of national institutions and practices there are increasing signs that national systems of corporate governance are giving way to an idealized American model of shareholder activism and liquid equity markets. There is no ‘one best way’, but several ‘functionally equivalent’ ways to solve co-ordination, information and enforcement problems, implying that there are many ‘varieties of capitalism’ instead of one self-enclosed capitalist system. Without doubt, an important point of the book is the expression of the strong belief of the authors: combined in an intelligent manner, complex regimes of corporate governance allow for a division of democratic labour that can be both effective and inclusive.

The book, with its intellectual and technical entries, is appealing for both students and well-trained economists. In fact, thanks to valuable efforts by the authors, even technical issues are made accessible to non-specialists while expert readers are directed towards other publications for more technical developments. This book addresses different topics and makes assumptions regarding the practical application and specific explanatory power of its frame. In fact, all chapters display sensitivity and attention to most of these problems and offer solutions that merit further discussion. This book on shareholder-based ideology economics gives the reader a unique opportunity to understand the different lines of development of capitalism. Tightly argued throughout, *The Corporate Governance Adrift. A Critique of Shareholder Value* makes a useful contribution to the reconstruction and advancement of the critique of shareholder ideology. To this reviewer, authors’ main advances appear to be their complex treatments of the 'shareholderism' and their detailed analysis of the impact of this ideology on the recent tendencies in capitalism.