Summaries of Articles

Varieties of Governance

par Ciaran Driver

The reform of corporate governance is again on the agenda in the wake of Enron and excessive risk-taking by financial institutions. However, the search for new and better forms of governance often seems to lack guiding principles. A theory of corporate governance ought to emerge from a theory of the firm. Yet, the literature shows how this project is both difficult and far from complete. In this paper we review how existing theory provides a variety of arguments favouring either a shareholder or a stakeholder orientation. These arguments may depend on whether the prime objective for governance is improved current performance or a more long-term focus for firms. A brief review of recent US governance reforms is given as a backdrop to discussing more far-reaching proposals that have emerged in the recent literature; a greater role for institutional investors on the one hand or a return to managerial capitalism on the other.

Keywords: corporate, governance, shareholder, stakeholder, innovation.

JEL Codes – G30, G31, M14, D21, L2, L1.

Corporate Governance, Industry Dynamics and Firms Performance on the Stock Market: An Empirical Analysis of a Best Practice Model

par Jackie Krafft, Yiping Qu, Jacques-Laurent Ravix

This paper intends to relate more closely corporate governance, industry dynamics and firms performance. In this perspective, it focuses on the impact of applying the normative, best practice, shareholder value model of corporate governance on industry dynamics and related performance measured by economic as well as financial indicators. At a theoretical level, the paper presents an integrated framework based on the connection between firms governance and industry dynamics issues. But the core of the paper is to advance that the combination of corporate governance and industry dynamics also requires important investigations into empirical aspects. At a case study level, our major finding is that the adoption of the best practice model of corporate governance in the telecoms equipment supplier industry contributed to create large ups and downs in the industry dynamics affecting both economic and financial performances. At a more general level, combining two different datasets Corporate governance Quotient (CGQ) and DATASTREAM, we show the variegated impact of the normative model on industry dynamics and confirm the observed phenomenon of ups and downs amplifications formerly emphasized, at least at the level of stock market performance.

Keywords: Corporate governance, industry dynamics, firm performance, stock market, innovative *versus* traditional industries.

JEL Codes – G30, L20, L60, L80, L90.

The US Stock Market and the Governance of innovative Enterprise

par William Lazonick

During the 1980s and 1990s the argument that "maximizing shareholder value" results in superior economic performance came to dominate the corporate governance debates. In this paper, I outline the rationale for the shareholder-value perspective, and show that, rooted in agency theory, it lacks a theory of innovative enterprise. Hence it cannot be used to analyze the conditions under which the stock market supports or undermines the process of value-creation. To go beyond agency theory and its shareholder-value perspective, I present a framework for analyzing the functions of the stock market in the business corporation and the influence of these functions on the social conditions of innovative enterprise. I then use this framework to explain why in the United States since the 1990s there has been a widespread trend in corporate stock repurchases, including a sharp acceleration in buybacks since 2003. Focusing on a list of the largest corporate repurchasers in the United States, I raise questions concerning the relation between stock buybacks and value-creating investments in the US economy as a whole. I conclude with a discussion of why companies do stock repurchases, and in particular whether they can be justified as a contribution to innovative enterprise. I argue that the ultimate justification for stock repurchases is the ideology of "maximizing shareholder value" – an ideology that works to the direct benefit of corporate executives who make corporate resource allocation decisions and who derive high levels of remuneration from munificent stock option awards.

Keywords: stock market, innovative enterprise, shareholder value, stock repurchases.

JEL Codes – L20.

The Stock Market and Human Resource Management: Evidence from a Survey of French Establishents

par Corrine Perraudin, Heloise Petit, Antoine Rébérioux

This article examines the influence of equity ownership structure (stock market listing and identity of shareholders) on human resource management practices. The empirical analysis uses the 2004-2005 Workplace Industrial Relations Survey (REPONSE survey), based on a sample of 2930 establishments with 20 employees or more, representative of the French private sector. Our findings confirm the importance of listing and, to a lesser extent, of the identity of shareholders as determinants of human resource management practices, considering temporary work arrangements (agency work, fixed-term contracts and sub-contracting), pay policy (wage levels and use of variable pay) and training expenditures.

Keywords: corporate governance, ownership of equity capital, human resource management.

JEL Codes – G34, J3, M5.

Finance, Corporate Governance and the Next Long Wave Upswing

par Andrew Tylecote, Paulina Ramirez

This paper assumes, with Perez (1983, 2002), that technological development follows a 'long wave' rhythm, in which new 'techno-economic paradigms' succeed one another at long intervals; the latest being the Information and Communication Technology (ICT) paradigm. When the new paradigm appears a tension develops between it and the existing socio-institutional framework. We argue that the *financial and corporate governance system* (FCGS), is a key element of that framework which is unusually resistant to change. The focus is on the UK FCGS, an outsider-dominated/stock-exchange-based system, though with comparisons with the US and with 'insider-dominated' economies. Based on fieldwork conducted between 1999 and 2005, we find that Britain is still a long way from witnessing a new creative partnership of financial and industrial capital in most of the economy, needed to fully release the potential of the new paradigm. We discuss what form that might take.

Keywords: financial and corporate governance system, techno-economic paradigm, outsider-dominated/stock-exchange based.

JEL Codes – O16, O33, P16.