The book that the reader is about to discover is the fruit of several years’ pre-occupation. Its origin goes back to a project of collective research launched in 1999, on behalf of the Commissariat Général du Plan. One of the authors coordinated this research; the other gave it major impetus. Four research centres participated in the project: the FORUM in Nanterre, the IDEFI in Nice, the INSEAD in Fontainebleau and the CPDR of the Catholic University of Louvain. This research culminated in a report published in September 2001 and entitled: *Régimes de gouvernements d’entreprise: différences nationales et stratégies d’entreprise* (‘Corporate Governance Regimes: National Differences and Corporate Strategies’).

From this period on, we became mistrustful of the dominant ideology – a skilful mixture of legal and economic theory – championed by Anglo-American consulting firms, the larger investment banks and certain academic circles. In the euphoric atmosphere of large-scale stock market speculation and the golden age that the ‘new economy’ was expected to bring, the shareholder was king. Creation of shareholder value established itself as the pillar of a new form of governance, guaranteeing uninterrupted prosperity for the economy as a whole, including workers. There was no doubt, according to the enthusiastic promoters of this doctrine, that the whole world would convert to it. Globalization of the economy, by exerting its influence on the firm itself, would penetrate deeper strata than the level of the capital markets alone.

In the report cited above, we expressed doubts about this unilateral, indiscriminate interpretation of the transformations that were indeed shaking up the corporate world. We did not consider stock market overbidding provoked by the stimulus of shareholder value as a sustainable process. We did not see, in the frenzy of mergers and acquisitions, a restructuring process of self-evident economic efficiency. We did not observe the whole world being converted to this new religion. Because our study extended beyond the field of finance, exploring the interlacing of relations between the different partners of firms, we were contemplating a diversity of forms of governance that had no reason to disappear.

The Enron affair broke just one month after the publication of our report. It was to be followed by many other scandals. During this period, finance displayed an instability that could only be controlled through
sustained intervention, of exceptional duration and on an unequalled scale, by the Federal Reserve Board. The events that have occurred in business, in finance and in the global economy have prompted us to deepen considerably the scope of the analysis of which the 2001 report was the first milestone. It is the properties of finance-led capitalism that must be examined. To do so, we must study in detail the developments in contemporary finance, the logic of its functioning and its sources of fragility. We need to explore the nature of the modern firm, of the powers it contains and of the objectives actually pursued by its executives, without letting ourselves be blinded by the ideology of shareholder sovereignty, which persists despite the profound crisis provoked by its application. Above all, we need to analyse the close links between the expansion of market finance and the strategies adopted by firms, to highlight the perversity of a model of capitalism in which stock markets play a dominant role.

The approach adopted in this book is therefore above all analytic and positive (empirical). It is essential to deconstruct the predominant ideological discourse in order to demonstrate the deficiencies in its theoretical foundations, both legal and economic. Nevertheless, we could not avoid completely a normative point of view, which is encountered on every page written by the advocates of a form of governance oriented exclusively towards comforting the well-being of the shareholders. Essentially, our normative propositions, leading us to set one principle of governance against another, are presented in the last chapter.

At an analytic level, we therefore begin by examining the conception of finance-led capitalism which currently prevails in academic and political circles, and which can be summed up in two propositions:

- The strengthening of the finance-led model results in better risk-sharing and greater economic efficiency in the allocation of capital;
- Shareholder primacy puts an end to the usurpation of power that characterized ‘managerial capitalism’. It (re-)establishes the respect of private property – the linchpin of capitalism.

Accepting these propositions leads one to foretell the ‘end of history’, as capitalism succeeds in imposing an efficient form of regulation throughout the world. The joint difficulties encountered by finance and corporate governance in the wake of Enron have failed to dent this apologetic vision within the dominant intellectual current. The two phenomena have been treated separately in recent literature; their interactions lie at the heart of this book. On the one hand, the stock market crash has been attributed to market exuberance. On the other hand, failures in governance have been
explained as a deterioration in managerial ethics, the origins of which are extra-economic.

Our approach, both positive and normative, lies within an institutional tradition which, though interrupted, goes back to the seminal work of Berle and Means. As early as 1932, these authors raised the issue of corporate governance that results from the separation of ownership and control. Our interpretation of this problem is radically opposed to that upheld by the champions of shareholder sovereignty. Those who advocate exclusive control by shareholders as a solution to the dilemma of separation cannot explain the paradox at the heart of the current crisis in governance. This paradox is the following: the greater the number of control mechanisms in the hands of the shareholders, the greater the exploitation of the dependency of firms on the stock markets by corporate executives for their own personal enrichment.

Against the principle of externality of the firm’s objectives (maximization of the well-being of shareholders alone, in an agency relationship), we set another: the principle of the political elaboration of the firm’s objectives by the board of directors, considered as a body mediating between the executives and the internal and external stakeholders of the firm. This principle raises the problem of the overlapping of market and democracy in contemporary capitalism. To the extent that it is progressing, participative democracy in France tends to be confined to the non-profit sector. The experience of Scandinavian countries in the compatibility between the preservation of social cohesion and the assimilation of innovations leads us to believe that an advance in democracy at the heart of the most essential economic institutions is indispensable to the regulation of European capitalism at the beginning of this new century.

OUTLINE OF THE BOOK

We begin our analysis by defining the context in which the doctrine of shareholder value has flourished: the diffusion of information technology and financial globalization. The most relevant characteristics of these two factors in terms of corporate governance are studied in Chapter 1. We then criticize the ‘end of history’ thesis, in both its normative dimension (optimality of shareholder value) and its positive dimension (system convergence). Chapters 2 and 3 thus aim to ‘denaturalize’ (deconstruct) current finance-led capitalism, by demonstrating that the ideology it conveys is contingent to the intellectual and institutional watershed experienced by the United States at the beginning of the 1980s.

The two following chapters explore the mediations between finance and
firms, namely regimes of governance and accounting standards. The denaturalization of shareholder value leads us to examine both the diversity of forms of control (Chapter 4) and accounting representations of the firm (Chapter 5).

In Chapters 6 and 7, we study the logic of finance-led regimes and their macroeconomic effects. By highlighting the interdependencies connected with risk management, we bring out forms of instability which redistribute the systemic risk of banks towards other institutional sectors and which exert powerful influence on the economic cycle.

Chapter 8 analyses the crises in governance from the firm’s point of view. It studies the lessons to be learnt from symbolic financial scandals such as Enron and Parmalat. Using concrete cases, we demonstrate that current explanations of these failures are insufficient and that the very principle of control by external shareholders must be called into question. Consequently, based on these reasoned observations, Chapter 9, after giving a synthetic presentation of the results of the whole book, outlines another conception of corporate governance founded on the idea of economic democracy.