Introduction: business – beyond social control?

Plus ça change? The name of Lorenzo the Magnificent, head of the great Medici banking dynasty of Renaissance Italy, still resonates for his artistic patronage and political role in Italian history. His ‘magnificence’ and munificence came from his family’s business innovations. These created a multi-national banking, trading and textile empire which prefigured the subsequent ‘modern’ corporations of the Atlantic seaboard economies. The Medici enterprise pioneered such business practices as: limited liability (‘accomondati’) for investing partners; specialist managers for five European regional branches, including London; and managers’ remuneration based on their profits. Lorenzo left business dealings to confidantes and those managers in order to further his dynasty’s penchant for political power and cultural patronage in Florentine and Italian society.

Alas, then as now, such delegation distorted the whole enterprise. As de facto head of an unelected Florentine oligarchy, Lorenzo’s response to the inevitable business crisis was to raid state finances. In vain: in 1494, two years after his death, the banking empire was dissolved. The Medici were expelled from Florence and Savonarola’s anti-elite revolt, symbolised by the Bonfire of the Vanities, liquidated or sequestered the businesses. The following chapters argue that contemporary society is afflicted by similar over-reach of corporations into political and social aggrandisement. Like the Medici they have broken the social ties which assisted and legitimatized their rise. This time, however, the disjunction of investors and stakeholder interests from the executive managers who control business resources, has enabled the managers to wield excess power and influence. Even so, as the rest of this book recounts, today’s executives bear a suspicious resemblance to Niccolo Machiavelli’s contemporary description of Medici’s managers, as behaving more like ‘princes’ than private individuals (de Roover 1946, p. 79).

In the twenty-first century, business scandals proliferate and business-driven economic crises persist. Corporate power and its abuses pervade political, academic and wider public debates. The topical issue is: how can big business be made more ‘responsible’? Across the spectrum,
politicians talk about creating ‘responsible capitalism’. A more fundamental, but less voiced question is: what is the source of irresponsible corporate power? Academics, activists and pundits have written about the economic power and irresponsibility of large businesses, especially multinational corporations (MNCs), for nearly a century. However, the current phenomenon involves a much wider range of corporate influence, ranging from an expansion of corporations’ traditional base in the market economy, and into politics and the wider society. Concerns about big business activities span both their immediate economic domains of competition, customer relations, employment and executive pay, but also new business roles in politics, the environment, civil rights and social welfare. Commentators have been right to emphasise the disproportionate, even illegitimate, political power involved here. But this aggrandisement is but one, albeit crucial, aspect of the more general over-reach of the corporate role.

This book has two main aims: (1) to identify the economic and socio-political roots of this multi-dimensional escalation, and (2) to provide a critical analysis of contemporary recipes for containing or curbing some of this over-reach; particularly those focussing on corporate responsibility or accountability. Although this case is developed sequentially the chapters are arranged into three more general parts: I, Context and History; II, Social Embedding and Disembedding of Business Systems; and III, The Pursuit of Responsible Capitalism: Campaigns and Recipes. Students and researchers may read these separately or in appropriate combinations and with the separate Conclusion – which re-caps the arguments and evidence from each part.

To re-use a popular metaphor, corporate economic power and socio-political influence is now the ‘elephant in the room’ of political debate in Anglophone societies – particularly the UK. Controversies over corporate tax evasion, pricing of resource essentials such as oil and gas, as well as outrage at the colossal salaries and bonuses which executives seem to pay themselves, are mirroring academics’ and campaigners’ longer-standing critiques of corporations’ institutional powers and prerogatives. The entire economic miasma besetting Western nations is mired in the seeming irresponsible autonomy of the banking sector. But banks in English-speaking, and some other countries, share with many counterparts in manufacturing and service sectors the key feature of critics’ analysis: they are organised as share-financed firms controlled by a separate category of executive managers and directors, that is, they are share-traded/executive managed (ST/EM) corporations.

The following analysis culminates in the final two chapters which assess the policies of the UK’s leading political actors for achieving a
responsible capitalism and propose solutions which go beyond politicians’ nostrums. This account shows how contemporary mainstream politics recognises the corporate elephant’s unpleasant excrescences but averts its eyes from the problem of its outsized presence. The three main political parties do not address the corporate role as a structural problem. Instead they cherry-pick electorally significant cases of malpractice or excess and inter-weave these with prescriptions from two main intellectual paradigms: neo-liberalism and communitarian social responsibility. Chapters 4, 5 and 10 explain and dissect these paradigms and the complementary practices of corporate social responsibility (CSR). All the main parties’ solutions are based on different mixes of corporate responsibility methods with accountability through market competition; although Labour and the Liberal Democrats include selective and limited borrowings, from more radical campaigns, to offer more ‘transparency’.

Building on other commentators’ critiques, the analysis in this book traces the mounting crescendo of business scandals and economic crises in corporatised societies back to the corporations’ expedient organisational forms. Chapter 2 describes the basic financial and structural traits which have evolved to become the pillars supporting corporate power. These pillars of the ST/EM form are identified as: its legal personality; limited liability; separation of notional (share) ownership from executive control; multi-divisional organisation; mass production-mass consumption/mass financing complex with its global scale of operations; and, finally, a financialisation ethos aimed at maximising shareholder value. Key aspects of these traits, several of which were originally designed to distribute responsibility and minimise financial risk, have over-expanded the scale and scope of business power. As a result the ST/EM corporation dominates in economic areas of questionable relevance to its legitimate remit; but also socio-politically. It now shapes political governance and is taking over or re-shaping the functions of social institutions such as families and communities. The basis of this over-reach phenomenon derives from the delegated powers and a-social autonomy which corporate structures have bestowed on corporate leaders.

The scale and nature of this intermeshing of corporate interests and political institutions are reviewed in Chapter 1. This conjunction mushroomed first in the USA, where presidents and congressional representatives are now beholden to corporations for election funding and policy legitimation. Reprising the old saying, that what America does today Britain does tomorrow, corporate political influence now also penetrates the governance of the UK (Wilks 2013, pp. 95–146). The present focus is mainly on the evolution of business-society relationships in the United Kingdom; but not only because of the size or significance of the UK’s
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corporate sector. It is the UK’s commitment to the neo-liberal privileging of markets and business institutions which makes it a kind of test case of the liberation and promotion of the most obtrusive corporate form: the share financed and executive controlled company. The origins and predominance of this institution in the English-speaking world have led to its designation as the ‘Anglo-Saxon model’. This book prefers the less archaic and more precise shorthand label of the share-traded/executive-managed (ST/EM) firm, to differentiate this most typical Anglophone type of big business from other forms which are analysed in Chapter 7.

Seemingly irresponsible social behaviour amongst corporations has been intensified by their increasing emphasis on financial results and mechanisms as measures of success. This ‘financialisation’ of big business purports particularly to dedicate the corporation to the enhancement of returns to the corporations’ investors. Yet this notional primacy of shareholder value has given rise to the paradox of apparently greater power and autonomy of the executive managers, vis-à-vis the investor shareholders (cf Goldstein 2012). This paradox in the dominant trend of the past 30 years is given close scrutiny in several of the succeeding chapters, notably chapters 4, 5 and 10. Financialisation has been carried to such extremes that it has even threatened to displace the conventional ST/EM model itself. Taking corporations into the ownership of private investor groups involves their de-listing from stock exchanges and abandonment of the rules of governance required by the listing authorities. It could be argued that this activity is the logical extreme of the financialisation trend and one which has more salience as an object of analysis for corporate irresponsibility. However this deviant corporate form is beyond the scope of the present analysis. Detailed accounts of the businesses owned by the private equity, sovereign wealth funds and hedge funds involved in this trend are available; see Gospel et al. (2014). In fact, such financially controlled firms still represent a minority type of large business organisation, and the private investors involved often aim to return the purchased firms to stock exchange status after extracting profits and raising the firm’s marketable value. Moreover, in terms of potential for reversal of corporate autonomy and over-reach, the conventional ST/EM form, for all its limitations, still provides a basis for improving social accountability.

ST/EM corporations are closely controlled by their executives – supplemented by advisory non-executive or ‘outside’ directors. In theory the executives are monitored and sanctioned by their shareholders. It is this relationship which, in one form another, is at the heart of the corporate over-reach problem and its mooted solutions. Are shareholder-investors the legal ‘owners’ of the corporation? Are they the social
‘principals’ to whom executives act as ‘agents’, as some economic theories claim? This book follows Wilks (2013, p. 219–21), in taking this system of corporate governance as akin to a political constitution, in which there is an absentee, ‘owner’ monarch and a permanent regency of executive directors (cf also Gomez and Korine, 2008). Chapter 11 and the Conclusion develop these constitutional analogies but refute the sovereign shareowner thesis: because shareholders, as investors, are merely one category of creditor. Shareholders have financial claims on the value of the corporation but not substantive ownership of all its tangible and intangible properties. The opposite idea is the principal-agent relationship, which is popular with neo-liberal advocates of ‘free’ markets. Such proponents use this legal-economics thesis to claim managers are financially accountable, as agents, and also to justify top managers’ legitimacy and relative autonomy from the corporations’ stockholders and wider range of stakeholders. Chapters 4 and 5 pinpoint empirical limitations of this theory, and its neglect of the wider social and historical conditions which produced and sustain the contradictory investor-executive relationship; along with the ways in which it privileges investors. The alternative assumption used here, is that society rather than the shareholder/investor, should be regarded as the ‘principal’ – the absent monarch. For it was society, in the form of the sovereign state, which originally ceded corporations’ and managers’ rights.

For readers who have not been monitoring reports of corporate crises, controversies and current affairs scandals, Chapter 1 provides an indicative review of the scale and nature of the problems stemming from corporate power and over-reach. That chapter classifies and updates a raft of illustrative cases and commentaries like those described in several publications in the rising tide of corporate-critical literature (Bakan 2004; Hertz 2001; Klein 2000; Korten 1995; May 2006; Mayer 2013; Monbiot 2000; Monks 2007; Sklair 2002; Wilks 2013). Although this stream of critiques began with ‘outsider’ polemicists and civil society activists, its theme of excessive corporate power has now become a central concern of mainstream academics and even business ‘insiders’. Chapter 2, and the historical account in Chapter 3, show how corporations became too big for their institutional boots.

Following Karl Polanyi, I argue that ST/EM firms have outgrown and threaten to dominate, envelop and even undermine, some of the social and political institutions on which a sustainable market economy depends. Any rebalancing of the relationship between corporations and the rest of society must therefore interrogate the nature of the relationship between market organisations, such as firms, and the social institutions to which they are linked. These issues require consideration of theoretical
perspectives, particularly as the business-society relationship, and its stability and conflicts, have been central to the sociological canon, encompassing Marxian, Weberian and Durkheimian schools. More recently, analysts of corporate globalisation and business power have drawn inspiration from a revival of Karl Polanyi’s theory of ‘economic embeddedness’, which has given these classical ideas a fresh perspective (Block and Polanyi 2003; Cutler 2006; Dhir 2012; Haufler 2006; Jessop 2001; Munck 2002; Wilks 2013, pp. 15, 172). The Polanyian perspective has become popular amongst academics because it stresses the negative social and economic consequences of detaching market institutions from their social and cultural roots. Its appeal is enhanced by the ‘social embedding’ it proposes for a return to a more sustainable market economy. Thus social embeddedness theory can be used to identify how corporate structures and roles might be reformed to reduce excessive powers and increase their social accountability. Chapter 6 explains and explores this significance of Polanyi’s ideas.

Polanyi identified the last great re-embedding with the social democratic period arising from the Depression and Second World War conjuncture. Because social democratic regimes sought state control of corporations as nationalised or publicly owned enterprises, these approaches are often regarded as the most appropriate form of social embeddedness. Chapter 3 describes and evaluates this approach to business accountability by re-examining the successes and limitations of collective ownership through ‘nationalised’ businesses in twentieth century Britain. However, as various authors have pointed out, Polanyi himself considered a variety of socialistic forms of re-embedding as desirable and was not necessarily wedded to the social democratic model (Block 2003, p. 298; Jessop 2001, p. 222; Skonicki 2008). Accordingly, Chapter 7 assesses business systems that are more embedded, through different institutional structures, in their respective societies than the Anglo, neo-liberalised corporation has been.

Neo-Polanyian analysis tends to see currently dominant neo-liberal economic orthodoxy as being the driving force for, and synonymous with, the disembedding of economic institutions from the wider society. However, it can be argued that neo-liberalism has indirectly spawned two sets of institutions which could be regarded as forms of re-embedding. One complex is the regulatory systems which, at least in the UK, have been set up to protect market participants – customers, investors and the public purse – from the potentially monopolistic powers of big corporations. Chapter 4 subjects this kind of claim to critical analysis, examining the recent scope and efficacy of the neo-liberal business order which,
from the 1980s onwards, replaced social democracy’s regime of state-owned and controlled industries. The second candidate for a new social re-embedding of corporations’ enlarged and dominating power comes from diverse campaigns and advocacy for corporate ‘social responsibility’. Some of these movements – ranging from intra-business pressure groups to oppositional NGOs and social movement campaigns – still oppose corporations’ wider powers. However, many of these also have, as a common thread, a claim that big business is being, or can be, ‘re-moralised’ (cf Holzer 2010).

The scope and impact of this variegated movement, variously described as communitarianism, corporate social responsibility (CSR), corporate citizenship, or stakeholder engagement, is analysed in chapters 8, 9 and 10. These chapters examine the broad sweep and logic of the movement and then a number of critical cases which reveal the narrow limits of any such re-moralisation: despite some particular benefits for communities and the wider civil society, CSR is ultimately limited by the political-economic context. These limits are mainly the financialised markets of the neo-liberal world order and the corporation’s current institutional and legal structures. It is these conditions which narrow and prevent opportunities for wider accountability.

What then of those business systems beyond the Anglo-Saxon world? Do these more socially embedded institutions constitute alternatives to, or reform paths for the ST/EM corporate system? Neo-liberal perspectives often claim that the ST/EM corporate model dominates world trade and international stock exchanges. They can also claim that it is the business form most respected by international economic authorities such as the WTO and IMF. However, equally effective forms of business organisation have succeeded, in other parts of the world. The Japanese industrial corporation mounted a severe competitive challenge to western industrial corporations in the last decades of the twentieth century. Macro-economic developments, together with defects in Japan’s domestic economy, have partly diminished this threat. However, Chapter 7 shows that the spread of free market policies has not converted the Japanese corporation, or the equally distinctive German (or ‘Rhenish’) business system, into variants of the ST/EM model. More striking is the continued success of the German system since the onset of the current recession, which seems to have caused more damage to firms in the Anglo-Saxon neo-liberal sphere. As that chapter explains, Germany can still be touted as proof of the stabilising effect on corporate economic practices of socially embedded governance. Other relevant and possible alternatives to ST/EM dominance considered in that chapter are the state-coordinated East Asian (for example Chinese) forms, the industrial district model –
still particularly pronounced in Italy – and the intriguing complex of cooperatives, known as Mondragon, in Spain. The latter type of alternatives to the corporate system – ‘self-organization among mutually interdependent actors’ – were also identified as possible forms of social embedding by Polanyi (Jessop 2001, p. 218).

These counter-examples of business organisation suggest social embeddedness can take forms which are far removed from, and even antipathetic to, the emphasis on social-democratic controls which some of his followers associate with Polanyi. The key question is whether the ST/EM corporation can be re-embedded in more socially accountable ways than the unfashionable social democratic and dysfunctional neoliberal systems. In the final chapters the various attempts and prescriptions for achieving such conditions in the UK are brought together and analysed in relation to both historical and contemporary alternatives. That analysis contrasts the limited reforms currently advocated by the main political parties with those of more radical reformers, especially in relation to accountability and ways to democratise corporate power. The final two chapters assess which traits are most critical for maintaining corporate power and which reforms or transformations might remove or disarm them. Polanyi’s thesis, that social democracy/socialism is the most viable form of re-embedding, derives from his belief in ‘the tendency inherent in an industrial civilisation to transcend the self-regulating market by consciously subordinating it to a democratic society’ (Polanyi 1944, p. 234). Re-appraising this claim, these chapters assess which forms of democratic accountability might re-embed corporate autonomy for a post-socialist and, perhaps, a post-neoliberal age.

This final focus on the ownership-control separation and its governance, as the key institutional element for reform concludes by considering ways to remove disruptive investors from the ownership and control of the business. It draws on the examples of relative success of some mutual and ‘para-mutual’ enterprises, like the re-organised Welsh Water plc. For the majority of stock exchange companies, however, it recommends a variant of the Swedish system of executive accountability. This approach could adapt more easily to the UK than some other overseas models allowing both non-speculative shareholders and ‘stakeholder’ groups, such as unions, local government, community groups and NGOs, some control over executive managers’ appointments and remuneration processes. Such processes would be independent of the executive directors who manage the operations of the business as a whole. Over time the character of the company boards could reflect more accurately the interests and values of long-term shareholders and stakeholder groups. Because these groups would be drawn from wider social spheres than the
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corporate-financial, but would still be linked to them, accountable forms of social embedding could be achieved. By such reforms we could embark on the road to demoting the managerial regents and restoring society’s sovereignty over the corporation.