The need for an alternative to shareholder value creation? The Ethomed student experience

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ABSTRACT

This article aims to highlight the need for a radical break with the methodological individualism that dominates the fields of economics and management, especially finance. It advocates the need to try to understand the issues and methods that are required to coordinate economic action in order to meet social needs.

The article questions methodological individualism and the dominant role played by shareholders. Is it possible to promote social welfare simply by considering it to be a result of a shareholder value maximization point of view? If not, this implies not only understanding fully the challenges that we face but also being innovative regarding the way in which we coordinate the actions that are necessary to meet these challenges head on, and perhaps promoting another character as a substitute for the shareholder.

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1. Introduction

Constructing a collective meaning that is shareable and shared is a major challenge for society. Democracy cannot exist without a shared project nor can it be delegated or based on a return to the past that reflects a fear of the future. More precisely, it is impossible to query financial professionals and their tools without questioning the underlying paradigm, which is the creation of shareholder value (we are not discussing the role of management in relation to shareholders). This paradigm is the cornerstone of the financial edifice (Jensen, 2001; Weeks, 2010), because it is the belief that allocating resources to projects through maximizing their individual usefulness produces collective well-being that justifies its central role. That role then determines the way in which our societies work, as clearly shown by Weinstein (2010:36): “Major issues are hiding behind the ownership debate: an ownership system is fundamentally based on the division of economic and social power. It is a determining factor for the procedures that control resources and the companies themselves, and for the division of the risks and gains expected from the company’s business activities.”

This article presents a debate concerning three ideas. Section 2 questions collective representation, in particular, the neoclassical paradigm and its methodological individualism. Section 3 characterizes the shareholder paradigm that dominates finance discipline, which leads to a weak spot, described in Section 4: the concept of enterprise that is never defined

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and does not exist in theory (Veldman and Willmott, 2014). It is why Section 5 focuses not only on enterprise but also on a specific form of organization: the cooperative form. Cooperative organization could be a positive answer to capitalism contradictions (Marx, 1974/1894) if we are able to organize collective action under other rules than shareholder value maximization. Section 6 presents an experience called Ethomed, which has tried to link a pedagogical approach (learning by doing) and critical management with the goal of promoting new principles of collective action coordination. Section 7 offers a conclusion.

2. Query about collective representation?

Because the concern about the source of value no longer attracts much attention (the Physiocrats, the Classical School, and Marx), trade and the markets have taken center stage in the academic debate. In fact, financial markets and their main character, the shareholder (Weinstein, 2010:63ff), have taken the place of the market in the dominant paradigm (Vergara, 2006), which itself had taken the place of the “Prince,” (Machiavelli) as the agent who organizes the real world and is responsible for social order and collective interest. Passions, except for the passion for gain – which is a source of personal, and therefore collective, interest (Hirschman, 1980) – are subordinated to the search for this collective well-being.

Although we agree to this exclusive displacement, we should nonetheless ask ourselves questions about the actual possibilities of economic action, one of the essential vectors of which is the company, a platform for wealth creation. In neoclassical theory (NCT) the company is an agent and the organization is absent. Therefore, the company is interested only in the exchange of goods, based on calculations that optimize its individual usefulness. The company (or the firm) is then a point on a segment, determined by the choices that it makes between labour and capital factors. In other words, it has no substance and no content. At best, it is a dot on the function of production.

We can counter this approach with one based on a methodological collective, which clashes with methodological individualism. The aim is to break with the ontological assumption that asserts that any collective phenomenon is reduced to the sole result of individual actions, where conflicts arising from those actions can be settled by contracts, through confirming the need to specify the rules for coordinating economic action based on interpersonality (Amable and Palombarini, 2005; Eymard-Duverny, 2006; Keen, 2011; Orléans, 2004; Salais and Storper, 1993).

What then would be the basis for procedures mobilizing the resources required to promote (an)other alternative model(s) for coordinating economic action instead of methodological individualism, from an epistemological and gnoseological standpoint on the one hand and with contracts as the only way of handling coordination on a methodological basis on the other? Asking the question assumes that we recognize the diversity of coordination systems and the way in which the environment, history, and institutions shape the skills mustered by players in order to make contact with third parties.

This query echoes a debate that had already been taken up as early as the 16th century in the context of the discussions and controversies surrounding the quest to find a balance between passions and interests, to adopt the title of Hirschman’s (1980) work. The relationship, not to mention the dialectic, between collective interests and/or the public good and individual interest has been the focus of philosophical and political thought up until the present day (Hirschman, 1980:77–80; Vergara, 2006). This question is crucial and cannot be handled in an individualistic manner, even though we should recognize that the debate is far from settled, as is shown by Hirschman’s (1980) discussion of the subject. However, we agree with Ricœur (1997:294) when he says that “when we work, it is within a system of conventions,” after specifying that “human work always exceeds instrumental action because we cannot work without the contribution of our traditions and our symbolic interpretation of the world.” We also agree with the statement, according to which “only in the community [with others has each] individual the means of cultivating their gifts in all directions; only in the community, therefore, is personal freedom possible” (Marx, 1976/1932:62), with the understanding that this implies the free and full development of the individual and others, which is the determining condition for not making people unhappy while purporting to want to make them happy. “In the real community, individuals obtain their freedom at the same time as their association, in and through that association” (Marx, 1976/1932:63).

One other motivation for this work involved questions about corporate governance and corporate social responsibility (CSR) challenges for companies (Groupe Alpha, 2012; Perez, 2009). We propose that cooperatives actually provide a modern, operational solution to “non-cosmetic” problems with the governance and exercise of CSR (Bouchon et al., 2012; Cornforth, 2004; Feng and Hendrikse, 2011).

1 We consider both terms (company and firm) to be synonymous even if the first refers more to the domain of the economist and the second to the domain of the manager (Baudry, 2003; Bouba-Olga, 2003).
2 See the essay by Fleurbaey (2006:175), in particular the section on “The Myth of the Contract,” on this subject.
3 For a critical overview of the terms of the debate between methodological and dialectic individualism, see Sève (2004:179ff); See also Birnbaum and Leca (1991), in particular, although the issue is not knowing whether we need to start from the individual in order to understand economic and social choices but more knowing how this ability to choose and therefore to act (244ff). See Defalvard (1992), Hodgson (2007), and Birnbaum and Leca (1991) for an overview of the terms of the debate among the concepts of methodological individualism, holism, dialectic, and convention.
4 According to Sève (2004:242, note 111) “epistemology is actually a reflection on science, while gnoseology is a reflection on all forms of knowing” (our emphasis).
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