Seminar: Corporate Governance in a globalized economy
Autumn Term 2012

Course Objective

Corporate governance is concerned with structuring the power relationships in corporations and with controlling the conditions of generation and distribution of value. Theory as well as practice of corporate governance to a large degree focus on the protection of investors in firms. However, the assumptions of this perspective in many cases are becoming unrealistic due to changes in the relationship between business and society. In the wake of globalization the power of business firms is growing whereas the regulatory power of the nation-state is decreasing and regulatory institutions on the global level are emerging, often under participation of business firms. The major part of corporate governance theories does not take into account these changes – with potentially grave implications for firms and for society: decreasing acceptance of single firms as well as of the economic system of capitalism as a whole. The aim of this seminar is to analyse the implications of the changing operating conditions of business firms in a globalized world for theory and practice of corporate governance, to critically reflect various approaches to the regulation of corporate governance at the national and international level, and to elaborate a broader approach to structuring and controlling corporate power.

Administrative Details:

Time: Wednesdays from 14:15h to 16:00h. Start date: September 19.
Location: Seminarraum UNK-E-2, Universitätsstr. 84, 8006 Zürich (Tram-Station Winkelriedstr., Line 9 & 10).
In the first session the course outline will be presented and students have to sign up for a topic. In order to get credit for the course, students have to write a seminar paper, present their findings to the class, and participate in all seminar meetings. The participants are limited to 24 students.
The deadline for the module-booking of this course is October 12, 2012. The successful completion of the seminar accounts for 3 ECTS-Points, which can be credited to MA: BWL 5. The students will be provided with a course book including the reading material at the beginning of the course. The deadline for handing in the seminar is January 15, 2013.
Questions concerning the seminar can be directed to Anselm Schneider; email: anselm.schneider@ccrs.uzh.ch
Course outline:

1. Overview, practicalities

I. Corporate governance: Exploring the foundations of corporate control
   2. The changing relationship of business and society and the implications for corporate governance: An introduction
   3. Origins of modern corporate governance: The separation of ownership and control and its influence on contemporary economy and society
   4. Theories of the firm and corporate governance
   5. Alternative approaches I: Team production theory
   6. Alternative approaches II: Stewardship theory
   7. Alternative approaches III: Stakeholder democracy

II. Business in a globalized economy
   8. Globalization and the economy
   10. Business firms as political actors

III. Towards a broader conception of corporate governance
   11. Legitimacy problems of business and implications for corporate governance
   12. Procedural fairness and the survival of the firm
   13. Reviewing various approaches to corporate governance on the level of international and national guidelines
Detailed reading (bold: compulsory reading for all participants)

1. Overview, practicalities (Sept. 19)

I. Corporate governance: Exploring the foundations of corporate control

2. The changing relationship of business and society and the implications for corporate governance: An introduction (Sept. 26)

In the major part of economic theory, business is conceived as an actor that operates according to the rules determined by the state. According to this assumption, the role of business in society is restricted to the generation of profit whereas the nation state sets the rules for business conduct. However, in the course of globalization this division of labour becomes increasingly blurred. In this session, the implications of this change for the relationship between business and society will be discussed. In particular, the relevance of these dynamics for different corporate governance models will be investigated.


Friedman, M. 1970. The social responsibility of business is to increase its profits. *New York Times*, September 13, Section 6 (Magazine), 32-33.


3. Origins of modern corporate governance: The separation of ownership and control and its influence on contemporary economy and society (Oct. 3)

With the growth of corporations, professional managers gained increased power in corporations. Owners of firms had to increasingly rely on these managers to maximize their returns. To guarantee this, it has been suggested to install according monitoring mechanisms – corporate governance. Based on principal-agent theory, a theory of corporate governance evolved, which can be regarded as decisively shaping contemporary economy and even society. In this session, the emergence of traditional shareholder-centered corporate governance, its basic assumptions, and its implications for business and society will be analysed.

4. Theories of the firm and corporate governance (Oct. 10)
The nature of firms is theorized in economics as well as in organization theory. In the former case the strict assumptions of economic theory apply. In the latter case, these assumptions are sometimes modified, potentially leading to a more realistic picture of processes of organizational decision making. The aim of this session is the review of the most prominent theories of the firm. This is a necessary basis for analyzing different theories of corporate governance and for understanding the commonalities and differences of these theories as well as the broader implications of these theories for economy and society.


5. Alternative approaches I: Team production theory (Oct. 17)
Whereas traditional corporate governance is exclusively centered on the protection of investors, team production theory acknowledges the fact that not only investors but also employees are central for the generation of value. Therefore, it defines business firms as teams to which employees besides investors make different investments (skills, etc.). The protection of these investments is regarded as an incentive to make optimal investments in firms/teams and thus maximize organizational efficiency. Based on a critique of the implications of traditional corporate governance, it is proposed to include employees in corporate governance.


6. Alternative approaches II: Stewardship theory (Oct. 24)
The behavioural assumptions of traditional corporate governance imply that managers are potentially opportunistic and tend to maximize their own utility at the cost of the investors of a business firm. Stewardship theory argues that these assumptions are too
negative. Instead, it assumes that managers are primarily intrinsically motivated and have a propensity to self-fulfillment, responsibility, and intrinsic motivation rather than to opportunism. Consequently, organizational arrangements to overcome the assumed negative traits of managers prove potentially dysfunctional. Therefore, stewardship theory aims at modifying corporate governance structures so that positive human traits can come into effect and contribute to the increase of organizational effectiveness.


7. Alternative approaches III: Stakeholder theory and stakeholder democracy (Oct. 31)

Stakeholder theory emphasizes that the observance of different groups in the management of business firms is necessary for tackling the complexities business firms are confronted with. Theories of stakeholder democracy go a decisive step further and aim at the inclusion of various stakeholders such as employees, customers, and communities into organizational decision making. This is mainly for two reasons: motivation of employees and increase of the available information for organizational decision making. The aim of this session is to carve out different approaches to stakeholder theory and stakeholder democracy.


II. Business in a globalized economy

The aim of this section is to gain a comprehensive picture of the operating conditions of business firms in a globalized world, in which many assumptions of orthodox economic and management theory apply only to a limited extent. Based on these insights it will become possible to critically analyze different approaches to corporate governance and develop an appropriate understanding of the problems of corporate control in a globalized economy.

8. Globalization and the economy (Nov. 7)

Globalization is a multi-faceted process which affects almost every aspect of society. In particular, it renders questionable the assumptions of many theories about the relationship between business and society. The aim of this session is to gain a politically,
sociologically, and economically informed picture of globalization. On this basis it will become possible to reflect on the different approaches to corporate control covered in the previous sessions.


With the internationalization of business, the advancement of technology, and the decrease of regulatory power of nation states, the significance of negative external effects of business activities is rising. Such negative effects are most evident with respect to human rights and the natural environment. Since these negative effects are often the result of lacking regulatory power of nation states, there is evidence for the emergence of regulatory frameworks on the transnational level.

In this session, the negative effects of business firms in a globalized world will be analysed. Further, the most prominent approaches on the transnational level will be reviewed with regard to their capacity to complement national regulatory frameworks.


10. **Business firms as political actors (Nov. 21)**

The majority of economic and management theory as well as the major part of research on corporate responsibility takes for granted the traditional division of labour between economic (=private) and political (=public) sphere. However, business firms increasingly engage in activities originally conceived as public tasks, such as the engagement in transnational regulation (see session 9), and thus become political actors. This development blurs the distinction between the private and public sphere. The aim of this session is to analyse the features of this politicization of business firms and discuss the
implications of this development for economic, political, and management theories in general and for the theory of corporate governance in particular.


III. Towards a broader conception of corporate governance

11. Legitimacy problems of business and implications for corporate governance (Nov. 28)

Legitimacy of firms can be regarded as their societal acceptance and is a necessary condition for the survival of firms, since it is a precondition for the availability of critical resources. In the pre-globalization era business firms derived their legitimacy mainly from their economic activities and their positive implications for society. With globalization and the increasing politicization of firms, this source of legitimacy is becoming increasingly precarious. This is due to increasing imbalances in the distribution of wealth and the heterogeneity of cultural and moral expectations multinational corporations are facing. The aim of this session is to analyze the traditional approach to corporate governance as well as alternative approaches with respect to their effect on corporate legitimacy.


12. Procedural fairness and the survival of the firm (Dec. 5)

Taking a historically and politically informed view on corporate governance illustrates that corporate governance changed according to societal challenges business firms faced in different stages of the evolution of modern capitalism. However, its aim has always been to balance the interests of shareowners, managers, and stakeholders with the objective of securing the consent of these three parties to the activities of a corporation. Consequently, the shape of corporate governance changes with the evolution of the context conditions of business. Based on this insight, it becomes possible to gain a deeper understanding of the function of corporate governance, namely the maintenance of procedural fairness and thus the safeguarding of corporate survival.


13. Reviewing various approaches to corporate governance on the level of international and national guidelines (Dec. 12)
On the level of international organizations, a number of guidelines and frameworks aim at regulating national corporate governance systems. On the basis of the insights hitherto gained in this course, we will look at some of these guidelines to firstly assess the extent to which different theories of corporate governance materialize in national and international corporate governance regulation. Secondly, we will critically assess the appropriateness of these guidelines, a fortiori in the light of the recent financial crisis as well as in the light of a changing role of business and society.


Based on the insights in the changing operating conditions of business as well as in the different theories of corporate governance gained in the former sessions, in this concluding session novel approaches to corporate governance on the level of the firm will be discussed. Further, by means of case studies the relevance of these approaches for managerial practice will be illustrated. Finally, the implications of these considerations for management theory will be analysed.