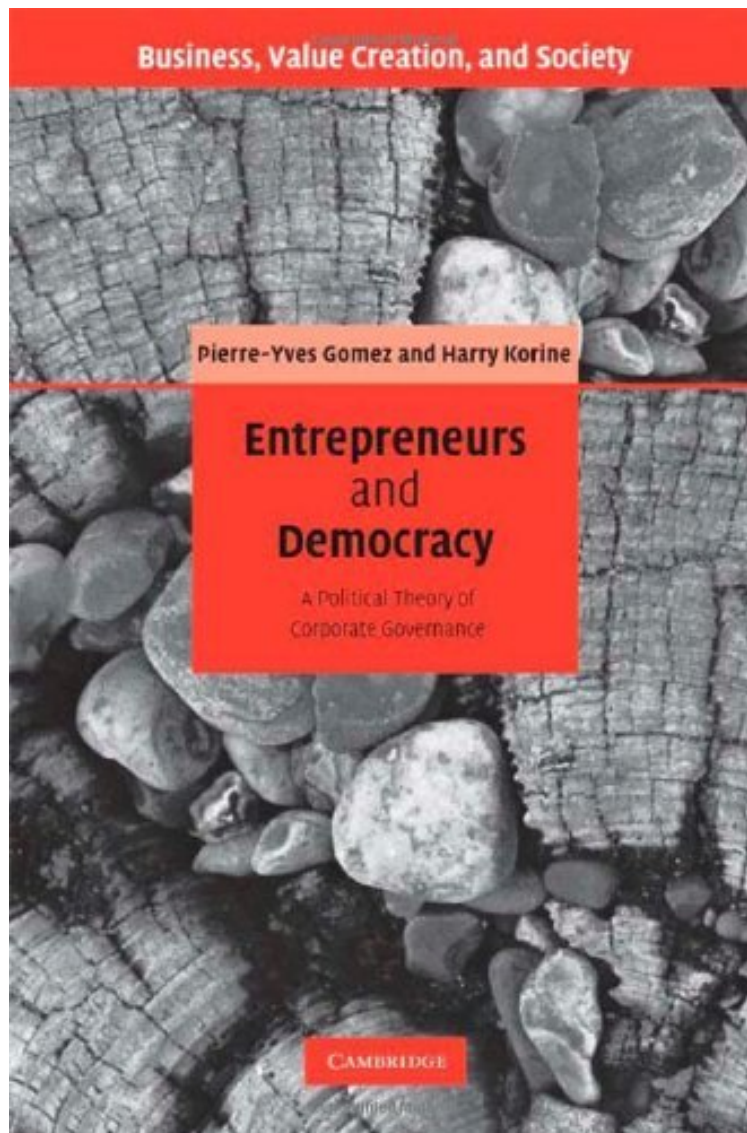


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## Entrepreneurs and Democracy: A Political Theory of Corporate Governance (Business, Value Creation, and Society)

*Pierre-Yves Gomez, Harry Korine*  
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**Pierre-Yves Gomez, Harry Korine : Entrepreneurs and Democracy: A Political Theory of Corporate Governance (Business, Value Creation, and Society)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Entrepreneurs and Democracy: A Political Theory of Corporate Governance (Business, Value Creation, and Society):

2 of 4 people found the following review helpful. A Sweeping MasterpieceBy CorpGovNet"From the unstable

equilibrium between entrepreneurial force and social fragmentation emerges corporate governance that is both legitimate and performing," directing the "productive action of people who want to stay autonomous and free." The quick takeaway: corporate governance must increasingly become more democratic to be seen as legitimate. "Whereas political harmony in traditional societies is built on complementarity and cooperation, liberal society strives to create social agreement" grounded in individual liberty and competition. "The emergence of the entrepreneur as the heroic figure of capitalism is paralleled by the emergence of democracy" as the accepted institution for reconciling these two forces. "Democracy has spread from the political sphere, to the civic and economic spheres: the history of corporate governance does not escape this movement." In feudal times, the aristocrat owned rights of fructus and abusus, but not usus. The tenant owned rights to usus and fructus but not abusus. Partition of complementary property rights provided the building blocks for a cooperative society, organized around class and mutual dependence. The rise of private property and ownership of all three rights by one party permitted the blossoming of individual liberty and capitalism. In the tradition of modern liberal thought, work, not ownership, became the more privileged source of political legitimacy. Work reaffirms individual liberty and equality, whereas ownership can be inherited and can be used to sustain inequality. Management, therefore, eventually took over the entrepreneur's mantle of legitimacy, transforming shareholders from involved owners to coupon clippers. Berle and Means did not blame the Depression on the greed of those who owned shares but rather on their passivity and their failure to check management. They concluded that control groups have "placed the community in a position to demand that modern corporations serve not alone the owners of the control but all of society." They proposed that corporations seek to maximize the general interests, rather than shareholder profits. Most economists endorsed the economic analysis of Berle and Means but not their conclusion. Instead, they systematically worked to overcome the inherent inefficiency of separating ownership and control by focusing on market forces, ... purified of the need for government intervention, with "agency" theory. Agency theory underestimates the degree of fragmentation. Real divisions occur not only between shareholders and management, but also among shareholders who differ in size, motivation, time horizon and willingness to exert influence and likewise within management itself. Like the managers of agency theory, shareholders will also seek personal gain by exploiting imperfect information. Shareholders seek to maximize their own profits by exploiting information imperfections. Like managers, they are tempted to maximize short-term interests, attracting speculative money to raise share price. Neither managers nor shareholders have much incentive to stay loyal to the company. Both can move on easily. We are now entering a new corporate governance paradigm where "investors" are focused on the value of a portfolio of investments. They trade to optimize their portfolio and care little about the fate of any single company. "Shareowners" focus on individual corporations. Both are interested in profit maximization but shareowners may also be interested in the firm's specific role in defending jobs, securing credit, consolidating business relationships, preventing ecological risk or increasing share price through shareowner intervention. Management becomes the executor of choices determined by financial markets, driven by investors and shareowners. Where shares are highly dispersed and markets liquid, investors hold sway. In the opposite case, shareowners play the more a critical role. "Between the 'invisible hand' of the markets and the very visible role of management, active shareowners play the roles of catalysts and mediators." The authors offer three primary characteristics of contemporary corporate governance. Omnipresent information. Familial governance operated on principle of secrecy, managerial governance on expertise and the ability to interpret information. Today markets require a permanent flow of increasingly standardized information. De-privatization of corporation. Shareowners and investors, to some extent, work for the corporation, even though formally outside of it, by contributing significantly to strategy. Debate and representation of interests play an increasing role. Public opinion has become the main counterweight to entrepreneur. Actors have melded - consumers, owners, workers, citizens are often the same, enlarging the circle of discussion. Gomez and Korine demonstrate that a corporate governance model based only on the calculations of individual interests does not maximize economic performance for society. Market self-regulation is inadequate. So, how do we regulate markets to ensure the convergence of both public and private interests? The answer appears to require greater use of democratic mechanisms.

What legitimizes power within a corporation? This question is of concern to the millions of citizens whose lives depend upon the fate of business corporations. The rules, institutions and practices of corporate governance define the limits of the power to direct, and determine under what conditions this power is acceptable. Effective corporate governance has long been defined in terms of economic performance. More recent studies have focused on philosophical, political and historical analyses. *Entrepreneurs and Democracy* unites these strands of inquiry - the legitimacy of power, the evolution of multiple forms of governance and the economics of performance; and proposes a framework for future study. It explores the opposing tensions of entrepreneurial force and social fragmentation that form the basis of legitimate corporate governance in modern societies. In doing so, it identifies a common logic that links both the democratization of corporate governance and the growth of economic performance.