Challenges for corporate governance: what is the common theme?

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The coronavirus pandemic has been a disruptive force, undermining the survival of many corporations and creating new challenges for corporate governance. Fortunately there is a common theme.

The coronavirus pandemic 'provides a unique opportunity to study how various governance mechanisms affect corporate performance' (Zattoni and Pugliese, 2021). It has caused tension which has amplified three existing challenges for corporate governance into three dilemmas: (sustainable) long-term value creation versus (assumed short-term) shareholder value; shareholder value versus stakeholder value; and outsourcing or insourcing – choosing the relevant part of the global value chain. These overlapping questions – the search for the boundaries of the firm/corporation – are ('precisely') the subject of the theory of the firm. It contains many insights of ways of value creation and capturing.

Introduction

Let's first focus on the fluidity and elusiveness of the firm and value. Both the firm and value creation/capturing are multileveled and multifaceted constructs. On the one hand, the firm can be represented as either a separate entity (a whole), or as consisting of stakeholders (parts). On the other hand, it can be considered as either a separate entity or as part of society (a part of a whole). These levels create a dialectic playing field. This also follows from the difference between value creation and capturing (or appropriation) which are often confused. Value creation is more associated with the level of the stakeholder and society; value capturing more with the level of the firm. It looks like the firm does not exist in the first approach, only its stakeholders do. The question is how, with whom, and for whom, value was created/captured. This depends on the (supposed) boundaries (and levels) of the firm.

The three challenges

The first challenge – the contradiction between long-term value creation and shareholder value – is a false dichotomy because shareholder value is in principle a long-term concept too. But it could be that due to capital market forces, the corporation is forced to realise profits. There is a longer debate about if, and to what extent, corporations focus on the short term which could be detrimental to their long-term sustainability and that of society. The problem with profit is that its focus is too narrow; the problem with long-term value creation is that it is too elusive. Besides, corporations cannot pay their bills if they only create value. An interesting question is whether the coronavirus crisis has influenced what CEOs are focusing on. Did a more long-term focus diminish the consequences of the crisis – were firms with a long-term focus more able to withstand the crisis? Or has the crisis changed the focus from being long-term, to becoming a more short-term focus?

The second challenge comes from the old dichotomy of the shareholder-stakeholder approach. The relations between the stakeholders of the firm can be labelled with three c's: they cooperate, compete, and have conflicts. The firm is thus a dialectical being. The coronavirus pandemic put more pressure on the question of the legitimacy of the corporation. Did stakeholder-focused corporations cope better with the crisis? How did corporations respond to the increased pressures of inequality and inclusion? Did they shift the burden to a specific stakeholder? Or did corporations 'incorporate' a stakeholder approach? Some are rather sceptical: 'The Illusory Promise of Stakeholder Governance' (Bebchuk and Tallarina, 2020). Besides, major oil companies reported high earnings – paying their shareholders bigger buybacks and dividends. However, there are theoretical developments that integrate the resource-based theory with stakeholder theory (Barney, 2018, McGahan, 2021).

Lastly, the crisis has created an awareness of the connections of the globalised interdependent world. A firm not only embodies an internal value chain, it is also a small part of the supply (or value) chain. The business ecology creates new tensions due to frictions in the supply chain. The detriments of outsourcing became more prominent during the pandemic. A corporation (and even a nation) is at risk when it depends on only one (foreign) supplier. It may sometimes be cheaper to outsource activities, but at the same time it makes a corporation more dependent and vulnerable. But one or two suppliers are more easy to control than a dozen – especially when new regulations expand the responsibilities of corporations for their suppliers' ESG performance (in the Netherlands: *De wet verantwoord en duurzaam internationaal ondernemen*). Manoeuvring through the business ecology raises the following question: 'where does an organization's responsibility end?' (McGahan, 2020).

Conclusion

Manoeuvring through the business ecology changes the boundaries of a corporation; it is a sign of adapting and experimenting in the process of value creation/capturing. The question is (how and) for whom and with whom the firm has created/captured value, or: ‘who is in, who is out, and who gets what?’ (Klein et al., 2019). The theory of the firm, which is focused on the process of value capturing/creation in a more or less independent entity, can thus be useful when reflecting on these issues.

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