

Corporations: Quintessential Institutions of Modern Capitalism by Margaret Blair

Renuka Sane
National Institute of Public Finance and Policy

8th Emerging Markets Finance Conference, Mumbai

20 December 2017

- ▶ Corporations were regarded as deeply connected to specific states, communities or countries. Were expected to serve the interests of those governmental units.
- ▶ Today there is a separation.
- ▶ Research has focused on the narrow question of who, as between shareholders and boards of directors, should exercise control over corporations. Not about role of governments.
- ▶ Why the debate shifted to this narrower question, and what has been lost as a consequence of this shift?

- ▶ Corporations were regarded as deeply connected to specific states, communities or countries. Were expected to serve the interests of those governmental units.
- ▶ Today there is a separation.
- ▶ Research has focused on the narrow question of who, as between shareholders and boards of directors, should exercise control over corporations. Not about role of governments.
- ▶ Why the debate shifted to this narrower question, and what has been lost as a consequence of this shift?

- ▶ Corporations were regarded as deeply connected to specific states, communities or countries. Were expected to serve the interests of those governmental units.
- ▶ Today there is a separation.
- ▶ Research has focused on the narrow question of who, as between shareholders and boards of directors, should exercise control over corporations. Not about role of governments.
- ▶ Why the debate shifted to this narrower question, and what has been lost as a consequence of this shift?

- ▶ Corporations were regarded as deeply connected to specific states, communities or countries. Were expected to serve the interests of those governmental units.
- ▶ Today there is a separation.
- ▶ Research has focused on the narrow question of who, as between shareholders and boards of directors, should exercise control over corporations. Not about role of governments.
- ▶ Why the debate shifted to this narrower question, and what has been lost as a consequence of this shift?

Limits on what corporations can do

- ▶ Corporate charters imposed no limits on what corporations could do, or where they could do it, as long as they did not violate specific regulations.
 - ▶ Freedom is a value.
 - ▶ This might have given us uncertain jobs in developed economies, but have helped millions come out of poverty in places like China and India.
 - ▶ Perhaps this is a good thing, and gave us lots of gains.

Limits on what corporations can do

- ▶ Corporate charters imposed no limits on what corporations could do, or where they could do it, as long as they did not violate specific regulations.
 - ▶ Freedom is a value.
 - ▶ This might have given us uncertain jobs in developed economies, but have helped millions come out of poverty in places like China and India.
 - ▶ Perhaps this is a good thing, and gave us lots of gains.

Limits on what corporations can do

- ▶ Corporate charters imposed no limits on what corporations could do, or where they could do it, as long as they did not violate specific regulations.
 - ▶ Freedom is a value.
 - ▶ This might have given us uncertain jobs in developed economies, but have helped millions come out of poverty in places like China and India.
 - ▶ Perhaps this is a good thing, and gave us lots of gains.

Deep roots in the community

- ▶ Corporate executives had deep roots in the communities and felt a sense of responsibility.
 - ▶ Not sure whether it is possible to pinpoint what behaviour to expect.
 - ▶ Strong political connections generate other problems: For example, “bad loans”
 - ▶ Strong community connections make it difficult for “outsiders” to make an entry.
 - ▶ Problems of promoters in India. Our challenge is how to move away from dominant shareholder to dispersed shareholding.
 - ▶ What may be good for my community may not be good for my country, and what may be good for my country may not be good for the world.

Deep roots in the community

- ▶ Corporate executives had deep roots in the communities and felt a sense of responsibility.
 - ▶ Not sure whether it is possible to pinpoint what behaviour to expect.
 - ▶ Strong political connections generate other problems: For example, “bad loans”
 - ▶ Strong community connections make it difficult for “outsiders” to make an entry.
 - ▶ Problems of promoters in India. Our challenge is how to move away from dominant shareholder to dispersed shareholding.
 - ▶ What may be good for my community may not be good for my country, and what may be good for my country may not be good for the world.

Mandating responsibility can be problematic

Corporate boards and managers increasingly make and evaluate proposed strategies based solely on the impact such strategies will have on the value of corporate securities, regardless of the impact their strategies will have on employees, customers, or community or country.

- ▶ Two examples of government mandated responsibility: SSI reservation, CSR – not sure what this is giving us.
- ▶ Regulations in the form of who can enter, what form the company can take (for profits not allowed in education for example) – not sure what this is giving us.

Mandating responsibility can be problematic

Corporate boards and managers increasingly make and evaluate proposed strategies based solely on the impact such strategies will have on the value of corporate securities, regardless of the impact their strategies will have on employees, customers, or community or country.

- ▶ Two examples of government mandated responsibility: SSI reservation, CSR – not sure what this is giving us.
- ▶ Regulations in the form of who can enter, what form the company can take (for profits not allowed in education for example) – not sure what this is giving us.

Where do we go from here?

But this does not necessarily mean that corporations can operate with impunity, or that corporations and their CEOs and boards of directors are not going to be held accountable.

- ▶ Do firms obey the law? How can we get better enforcement?
- ▶ How does society find a way to reward a certain kind of behaviour?

Where do we go from here?

But this does not necessarily mean that corporations can operate with impunity, or that corporations and their CEOs and boards of directors are not going to be held accountable.

- ▶ Do firms obey the law? How can we get better enforcement?
- ▶ How does society find a way to reward a certain kind of behaviour?

Thank you