Assessing corporate governance and performance through the capability approach: Concepts and methods

Massimiliano Vatiero (Università degli Studi di Trento, Italy, & Università della Svizzera italiana, Switzerland) - presenter
Virginia Cecchini Manara (Università degli Studi di Trento, Italy)
Magalí Fia (Politecnico di Milano, Italy)
Lorenzo Sacconi (Università di Milano & EconomEtica, Italy)

LONG ABSTRACT

The capability approach (CA) is widely understood to have provided a major innovation in global debate in development theory and practice by offering an alternative account for what counts when measuring development and in what counts as development. We see this expressed in the very idea of development captured in the Human Development Index (HDI) as advanced by United Nations. It is a summary measure of average achievement in key dimension of human development: a long and healthy life, being knowledgeable and have a decent standard of living.

Ingrid Robeyns has drawn attention to the many places to which the CA has found its way. She writes, "the range of fields in which the capability approach has been applied and developed has expanded dramatically, and now includes global public health, development ethics, environmental protection and ecological sustainability, education, technological design, welfare state policies, and many, many more." (Robeyns 2017:4). Capabilities within the firm does not appear on this list. Our work addresses this gap. Then, can the corporation provide “corporate” actors (shareholders, workers but also consumers, clients, suppliers, etc.) with capabilities?

Since celebrated Berle-Dodd debate in 1930s on the concept of the corporation, there are two views on whom should serve the corporation.1 According to the so-called shareholder value view, which is today

---

1 Adolf Berle asserted in a forceful language that "all powers granted to a corporation or to the management of a corporation, or to any group within the corporation [...] are necessarily and at all times exercisable only for the ratable benefit of all the shareholders as their interest appears. That, in consequence, the use of the power is subject to equitable limitation when the power has been exercised to the detriment of such interest, and however correct the technical exercise of it may have been. That many of the rules nominally regulating certain specific uses of corporate powers are only outgrowths of this fundamental equitable limitation, and are consequently subjected to be modified, discarded, or strengthened, when necessary in order to achieve such benefit and protect such interest“ (1931: 1049, italics in original). Merrick Dodd disagreed and countered that the corporation is “an economic institution which has a social service as well as a profit making function” (1932:1147-1148, italics is added). Dodd claimed that the corporation is a legal entity created by the state for public benefits and therefore the proper purpose of the corporation (and the proper goal of corporate managers) was not confined to making money for shareholders. It also included more secure jobs for employees, better quality products for consumers, and greater contributions to the welfare of the community as a whole. Interestingly, Berle (1954:169) twenty years later abandoned his previous position: “the writer [Berle] had a controversy with the late Professor Merrick E. Dodd, of Harvard Law School, the writer holding that corporate powers held in trust for shareholders, while Professor Dodd argued that these powers were held in trust for the entire
the dominant view (cf. Hansmann and Kraakman 2001), the corporation exists only for its shareholders—this was the position of Adolph Berle (1931); in famous words of Friedman (1970): “the social responsibility of business is to increase its profits.” A second (opposite) view—the one originally advocated by Merrick Dodd (1932), but also by Berle (1954)—which is today called “stakeholder value” view, has been concerned with interests of other corporate actors such as workers, consumers, producers and creditors as well as shareholders. In a world of incomplete contracts (e.g., Williamson 1985), these groups are all vulnerable to opportunistic behaviours and so in order to encourage them to make relationship-specific investments it may be important for business to deviate from shareholder value maximization (cf. Blair and Stout 1999, Stout 2012). Two relevant examples of this compromise are represented by the co-determination model of German large corporations (e.g., Pistor 1999) and the Japanese model of capitalism (e.g., Aoki 1990). In addition, this view provides a justification of the idea of corporate social responsibility as an extended form of governance (Sacconi 2006, 2007). Although our paper is closer to this last view, we propose a different approach to the firm and its governance. Our view is based on the CA, as originally introduced by Amartya Sen (e.g., Sen 1992, 2000, 2009; see also Nussbaum 2011).

Even if HDI is important as comprehensive measures for assessing the (human) development of a country, it does not directly capture the contribution of different type of institutions of the society, especially corporations, to the development achievement of a country. That is, the wellbeing of individuals operating in the firms need to take into account also the system of rights and duties that preside and govern the work-life. Human development cannot disregard the satisfaction of basic needs (access to water and food) but must look also at the higher forms of achievement in professional and personal life. The importance of corporations and corporate governance in sustaining and granting capabilities and in turn its impact on human development, calls for a reflection on the possibility to explore a human development accounting that is able to capture the contribution of corporations on progress (in economic and ‘human’ terms).

Because a country is a super-firm (Coase 1937), we propose an analysis on capabilities similar to HDI and SGDs but performed at the firm-level. This is the main aim of this paper. Although a great attention has recently been paid in the contract business ethics literature to Sen’s CA (e.g., Renouard 2011, Garriga 2014; Westermann-Behaylo et al. 2016; Fia and Sacconi 2019), this paper represents in our knowledge one of the first attempts to use Sen’s CA in order to assess corporate governance.
References


