



*Real Academia  
de Ciencias Económicas y Financieras*

## Globalización y Gobernanza

Actas del 4<sup>o</sup> Coloquio Internacional  
Franco-Australian Centre for International Research in Management  
(FACIREM)

Barcelona, 10, 11 y 12 de Noviembre de 2009

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Real Academia  
de Ciencias Económicas y Financieras



## ***Program of the 4th Workshop of the FACIREM on Globalisation***

**Barcelona, 10-12 December 2009**

Welcome !

We are delighted that you are here in Barcelona, to participate in the fourth workshop on Globalisation, organized by the Franco-Australian Centre for International Research in Management and the Real Academia de Ciencias Economicas y Financieras.

The theme for this year's conference is "*Globalisation and Governance*". This theme associates two dimensions:

- the globalisation of firms and products extending to the whole globe,
- the important role of governance in this extension.

We think the program conforms to this theme, with participants from 11 countries and 12 universities, whose meeting reflects the importance of globalisation and exchanging views on its evolution.

From the beginning, the "FACIREM Workshop" formula, with a limited number of highly concerned economics and management researchers has been aimed at generating ideas and at sharpening methods. The resulting books, published by New York famous scientific editor, Nova Science Publishers, reflect their global perspective and their interest for researchers, economists and managers from all countries.

The Real Academia de Ciencias Economicas and Financieras was a logical host for this FACIREM workshop. Not only for its large international scope, but also because its members combine scientific expertise and experience at high levels of social, political and cultural responsibility. A prestigious opportunity is therefore offered to analyze the ongoing global crisis.

The theme of "Governance and Globalisation" is covered in one round table "**THE STAKES OF GOVERNANCE AND GLOBALISATION**" and in six sessions: "**SUSTAINABILITY**", "**POWER AND COUNTER-POWER**", "**PARTNERSHIPS**", "**GLOBAL AND GLOCAL**", "**MODELLING**", "**ETHICAL AND SOCIAL ISSUES**".

Thank you for attending the fourth FACIREM workshop on Globalisation. We hope you enjoy the meeting.

Dr Jaime Gil Aluja  
President of the Royal Academy of  
Economic and Financial Science

Jacques-Marie Aurifeille and Christian Dave  
Directors of the FACIREM  
Franco-Australian Centre  
for International Research in Management

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Clement A. Tisdell, Queensland University, Australia

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Jaime Gil-Lafuente, University of Barcelona, Spain

Mario Aguer Hortal, Royal Academy of Economic and Financial Science, Spain

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# PROGRAM of the WORKSHOP

Tuesday 10 November

**WELCOME OF PARTICIPANTS: 10h00 - 10h30**

**INAUGURAL ADDRESS: 10H30-11H30**

- . Jaime Gil Aluja, President of the Real Academia de Ciencias Economicas y Financieras
- . Jacques-Marie Aurifeille, Director of the FACIREM (Franco-Australian Centre for International Research in Management)
- . Juan José Pintó Ruiz, Former Chairmain of “La Caixa de Barcelona”

**Session 1: 11h30 - 13h00**

**SUSTAINABILITY**

*Chairman: Patrick Valéau (FACIREM, University of La Réunion, France)*

***Reflections on the future of Corporate Sustainability***

Ana Maria Gil Lafuente (University of Barcelona, Spain)

In the last decades we have watched various economic, political, social and environmental changes in several parts of the world, which in a direct or indirect way they affect the managerial environment and consistently to the companies. In the 21st century with the globalisation of the markets, the economies there are more dependent some of others, and at the same time more capable to the crisis, which generates also a major degree of uncertainty. In addition, question as the sustainable development, the climatic change, the sustainability and corporate responsibility, among others, nowadays they are in evidence what increases the responsibility of the companies to its stakeholders. The need to stimulate the economic development of sustainable form is a challenge for private companies and government institutions, which in recent decades have sought solutions in this regard through protocols, conventions and agreements that were negotiated in several international summits. At the same time, the creation of guides, standards, certification systems, codes of conduct and ethical principles, they provide to the company a broad discussion about the management tools that are used to ensure sustainable development planning. In this context, our aim is to reflect on the future of corporate sustainability by means of to all these instruments and management policies applied to sustainable development in the company.

***Environmental Governance, Globalisation and Economic Performance***

Clement Tisdell (FACIREM, University of Queensland, Brisbane, Australia)

Increasing globalisation of economic activity and accompanying economic growth have been factors in the worldwide loss of natural environments and biodiversity loss, and

these losses have accelerated since the beginning of the Industrial Revolution, Emissions of many types of pollutants and wastes from human activity are rising globally and are exceeding the capacity of natural environments to absorb and neutralize them. This problem is exacerbated by the fact that the quality and size of some natural sinks for neutralizing them (such as forests) are declining. Consequently, these wastes are accumulating in many environments and pose a growing threat to human welfare and to sustainable economic development. There are, for instance, global concerns about greenhouse gas emissions, about the release of ozone-depleting substances and about the worldwide loss of existing biodiversity. Many new transboundary and local environmental issues have also emerged as a result of global economic growth. After considering such matters, arguments for global governance and the international harmonization of rules for regulating environmental use are examined. Reasons why the global spread of the Western evolved economic system reduces moral responsibility for environmental damage and increases the need for greater and more effective global and international environmental governance are outlined. Subsequently, several important global and international environmental problems are identified and shortcomings in their governance are highlighted. Further analysis is then completed to discover reasons why as economic globalisation increases, there are continuing failures in market and political systems to provide adequate governance of global and international environmental problems.

***Los retos de la globalización y gobernanza en tiempos complejos***

Mario Aguer Hortal (Real Academia de Ciencias Economicas y Financieras, Barcelona, Spain)

The traditional ways of institutional insertion based on the State-Nation concept have been transformed from both the political and economic point of view. Thus, we find a new worldwide economic geography that projects new approaches with some value-added chains on a global scale with their own rules. We encounter a new concept, the governance, which is applied to define a model of management of the public matters based on the contribution of civil society by promoting a balanced relationship between State, civil society and economy at all levels.

**Lunch: 13h00 - 14h30**

**Session 2: 14h30 - 16h00**

**POWER AND COUNTER-POWER**

*Chairman: Christopher J. Medlin (FACIREM, University of Adelaide, Australia)*

***Which Corporate Governance through Globalisation? Critical Approach to the New Institutional Economy***

Christine Jaeger (FACIREM, University of La Réunion, France)

Among the economists, neo-institutionalists are those who, in the recent period, took a special care for firms generally speaking and corporate governance in particular. The question is to determine the type of governance which will be the most efficient. This question drives

immediatly to ask which incentives will drive to an efficient arrangement between owners, managers and employees in a context of asymmetric information.

We will first evoke the two kinds of answers: the one of the Agency Theories (Stiglitz, Alchian & Demsetz, Jensen & Meckling) and the one of the Transaction Cost Theory (Coase, Williamson). With some variants, they converge to base theoretically the practice of what is called today « the shareholders oriented governance ». Then, taking for support some recent works (R. Perez, J. Stiglitz, J.C. Graz), we will point out that the shareholders oriented governance, through the context of globalisation, becomes a stock exchange pattern : each process of increasing or assignment of capital assets must create « value for the shareholders ». Financial markets operate like a court of arbitration for these transactions and short term becomes the skyline of managerial decisions. Now, as the present crisis shows, there is no real governance of globalised markets: by themselves, their mechanisms are far from being stabilizing devices or driving toward a social optimum. The « shareholders oriented » governance create social and environmental externalities. Could another pattern of corporate governance come to light? And how could be built a better « globalised governance? As governance is the art to « administrate without government », is it legitimate to search for a better « governance » rather than a stronger global « regulation »? Indeed, regulation of global markets is still to build while international institutions are not deeply reformed.

### ***The Contribution of the 3rd Sector to a Post Crisis Globalised Governance***

Patrick Valéau (FACIREM, University of La Réunion, France)

In 2008, the global crisis came to question the sustainability of a way of development exclusively based on the market sector. As a result, the world, through the states and governments is now heading for a new globalised governance. The third sector would naturally be expected to play an important part in this post-crisis globalised governance. The problem is that the third sector is now, itself, from the inside, at risk of becoming a market made of businesses just like the others. This article reviews the economical, social and political part traditionally played by the third sector in our societies, then examines the dangers of the very popular “social entrepreneurship” paradigm: a new means for efficiency and independence but also a means to new ends. Finally, this article explores different solutions to save the third sector: a coalition of the members of sector, help from the state for small non-professionalized non profit organizations and participation within a balanced new globalised governance. This article addresses these issues through many examples.

### ***Governance : An approach in terms of power and counter power***

Jérôme Gardody (FACIREM, University of La Réunion, France)

Traditional systems of corporate governance defend the interests between shareholders by limiting the opportunist behaviors of the CEO, the latter generally being considered as the unique initiators of financial abuse. This approach does not offer an efficient and effective solution since financial scandals continue to shake the economic sphere. So, we have to question this paradigm approaching the leader as a passive actor whose behaviors can be determined by control mechanisms (surveillance and incentive measures) in a unilateral relationship. In this sense, the theory of implanting shows us the incapacity of being able to force the general manager to supervise the firm according to the interests of the shareholders by integrating active behaviors of the leader. In fact, these behaviors are not the only causes



of existing abuses. Indeed, the latter can be the consequences of strategic decisions of shareholders who have, in theory, the decision-making authority, so sacrificing managerial values and the viability of the company.

This brief observation reveals a dynamic relational field in which each actor, by these behaviors, may impact the situation of another and the results of the company. These interactions will be possible through the use of power and counter power by each person. So, these concepts allow the shareholders and the manager to establish strategies to reach their personal goals. From there, it can be supposed, that by looking for the maximization of their interests, the relations of power can be allowed to neutralize and reduce the risk of sacrificing organizational values.

**Coffee break: 16h00 - 16h15**

**Session 3: 16h15 - 17h45**

**PARTNERSHIPS**

*Chairman: C. Tisdell (FACIREM, University of Queensland, Brisbane, Australia)*

***Inter firm Governance and Relationship Performance: A Study of Market, Hierarchy and Relational Coordination Mechanisms,***

Jacques-Marie Aurifeille (FACIREM, GDI, University of French Polynesia, France) and  
Christopher John Medlin (FACIREM, University of Adelaide, Australia)

Governance within inter-firm alliances refers to oversight of strategic direction and the mechanisms for the resolving issues that necessarily arise. Within inter-firm business relationships, governance modes have been conceptualized as a mixture of three ideal coordination mechanisms; market, hierarchy, and relationships. Measuring governance effectiveness requires choice of a managerial goal. As the purpose of business relationships is profit through joint action we examine governance effectiveness with regard to relationship performance.

A coordination mechanism model of governance is proposed and examined in the empirical setting of 162 software firms and their business relationships. A structural equation model indicates that relational coordination is a mediator variable for relationship performance. In general terms two governance modes explain relationship performance. A non-market relational governance mode and a plural mode comprised of contract-hierarchical and relational coordination mechanisms. The final sections of the paper discuss future research and managerial implications.

***Governance and subsidiarity in Firms***

Antonio Argandoña (*IESE Business School, Real Academia de Ciencias Economicas y Financieras, Barcelona, Spain*) and Lena Strandberg (*IESE Business School, Barcelona, Spain*)

Both the governance and the principle of subsidiarity have been thoroughly discussed in political contexts, however, their application to firms have been to varied degree. Corporate governance has been applied to firms regarding as the set of processes, customs, policies, laws and institutions affecting the way people administer, direct or control a corporation or business firm, whereas the application of the subsidiarity principle to corporations, has been

limited. We believe that both of these two can have interesting aspects and implications also for corporations.

The purpose of this paper is to discuss the parallelism between political/administrative and corporate structures and governance, under the light of the principle of subsidiarity. The focus is on an explanation of the definition and role of an organization which can be a natural example of the role of subsidiarity in governance. This paper is a first approximation to the development of a governance model based on subsidiarity founded on theory of the firm and theory of action.

With this paper we are not developing the consequences of this new way of looking at the subsidiarity principle, but we believe that there are several interesting conclusions which can be derived from it for corporate governance – and also to other forms of governance, since the theory of action, on which we have based our analysis, is valid for any human community.

### ***Network Governance: Network Closeness and Firm Performance***

Takao Ito (Ube National College of Technology, Japan) and Christopher John Medlin  
(FACIREM, University of Adelaide, Australia)

Network governance is defined as a firm capability, with a network goal. Network governance is firm use of resources, information and influence to change the position of any firm within a network, so as to increase the long-term profitability and adaptability of the network relative to other competing networks.

The paper elaborates network governance on the basis of information, influence and resource deployment. A network structure is defined in terms of boundaries and differentiation of interdependencies between firms. A theoretical model is developed, which places network governance within a broader nomological context of firms and business relationships within a network structure. One hypothesis of the broad model is examined empirically in the Keiretsu networks of Toyota and Mazda. We find a strong correlation between network centrality and firm profitability. This result suggests further research is worthwhile on the theoretical model. The final sections of the paper discuss the limitations of the research and future research.

## **Wednesday 11 November**

### **ROUND TABLE: 9h30 - 11h30**

#### **THE STAKES OF GLOBALISATION AND GOVERNANCE**

*Chairman:* Ricardo Díez Hochleitner (Honorary President of the Club of Rome, Spain)

- . Alessandro Bianchi, Ex Ministro de Transportes de Italia y Ex Rector de la Universidad de Estudios Mediterráneos de Regio Calabria, Italy
- . Baronne Janine Delruelle-Ghobert, Sénateur honoraire, Juge émérite à la Cour Constitutionnelle, Belgium
- . Khaled Kahhaleh, Vice President of the Royal Scientific Society, Jordania
- . Mohamed Laichoubi, Ancien Ministre et Ambassadeur d'Algérie, Algeria
- . Evangelos A. Moutsopoulos, Recteur de l'Université d'Athènes, Greece
- . Eugen Simion, Président de la Fondation Nationale pour la Science et l'Art de Roumanie, Romania
- . Maya Simionescu, Vice Président de l'Académie Roumaine, Romania

**Coffee break: 11h30 - 11h45**

**Session 4: 11h45 - 13h15**  
**GLOBAL AND GLOCAL**

*Chairman: Jaime Gil-Lafuente (FACIREM, University of Barcelona, Spain)*

***The Effects of Governance on the perceptions of partner brands,***  
Sinove Marde (FACIREM, University of Caen Basse-Normandie, France)

Nowadays, to face up to recession and global competition, most of the firms make alliances. This strategic decision commits the firms for a long time, so it is important for them to take into account the positions of all the actors, especially the shareholders, the managers and the customers, to make a successful decision. In specialised literature, many studies deal with this phenomenon, often from the point of view of firms and shareholders (Aurifeille, Medlin 2001, 2004; Kalaignanam, Venkatesh Varadarajan 2007; Nielsen 2007). However, less attention has been given to the consumers' perspective. Yet, what consumers think and feel about governance is fundamental because the last decision is theirs: to buy or not to buy the products.

In this article, we analyse the consumers' perceptions concerning a strategic decision: a partnership between two firms. We emphasize the consumers' perceptions or their image of the brand because, for them, it is the representation of the firms' offer (Dobni, Zinkhan 1990; Keller 1993); it represents every physical and symbolic characteristic of the product. So, it is important for firms to construct a stable and strong image to avoid the possible negative consequences due to the governance. To do so, firms must know which factors could moderate the change in the consumer's image.

According to authors Yeung and Wyer (2005), the emotional factor determines the choice of a product and it is a basis in assessing the brands (Pham, Cohen, Pracejus, Hughes 2001). Nevertheless, could this variable moderate change in the consumers' perceptions when they face up to the strategic evolution? And consequently, could this variable influence the intention to purchase the brands?

To test the hypothesis, an experiment was carried out with 150 respondents. The respondents' perceptions are measured in two steps: before and after they know the strategic change. The results suggest that when consumers like a brand, their images and their intention of buying the products remain strong and stable. On the contrary, when one brand is more appreciated than the other, the results indicate an asymmetrical effect on the brands images and the intention of buying the product that benefits the less appreciated brand.

***Interactions between globalisation and retail productivity: Some governance issues***  
G rard Cliquet (IGR-IAE, University of Rennes 1, France) et Steve Burt (IRS, University of Stirling, Scotland, United Kingdom)

The interactions between retail productivity and globalisation are key relationships in the internationalisation of retail firms, yet they have received little attention from researchers. In this paper globalisation and retail productivity are defined from the literature and the latter concept is discussed from the perspectives of its determinants and methodological aspects. The interactions between these two concepts are then developed through a series of models which lead to questions of governance. Entry and expansion modes seem to be key issues when entering a new country and the correct choice between

these modes of local governance may have a positive impact on productivity. A strategic approach is chosen to discuss governance issues at the headquarters level, which may need to change its management approach if plural form networks are necessary at the local level.

***Building Trust with Geographical and Cultural Proximity***  
Magali Debat (FACIREM, University of La Réunion, France)

With more than 600 million users, Internet represents an enormous potential of B-to-C commerce. Because of the « ubiquitous nature of the Internet » (Lim 2003), vendors can sell their products to consumers worldwide.

However, consumers are generally reluctant to purchase products overseas (Lim 2003). For example, only 24% of the french Internet users feel no hesitation to purchase products from foreign vendors.

The major obstacle seems to be the lack of trust in the e-vendor (Baldwin & Currie 2000 ; Head & Hassanein 2002 and 2003) due to the underdeveloped legal environment of electronic commerce.

This paper investigates the impact of vendors' origins on consumers' trust in the absence of governance of online transactions. More precisely, we demonstrate that perceived geographical proximity and perceived cultural proximity reassure consumers when buying on Internet and that trust is a formidable substitute to legal governance.

Our results suggest that the cultural proximity participate to trust building and that geographical proximity is nearly ineffective on trust.

**Lunch: 13h15 - 15h00**

**Session 5: 15h00 - 16h30**  
**MODELLING**

*Chairman: Gérard Cliquet (IGR-IAE, University of Rennes 1, France)*

***The unpredictability of financial crises in a globalised world: implications for public governance***

Arturo Rodríguez Castellanos (*Real Academia de Ciencias Economicas y Financieras*, University of the Basque Country), Nerea San Martín Albizuri (University of Basque Country)

Globalisation process has not succeeded in eliminating international financial crises; quite the opposite, a number of authors argue that it has contributed to trigger them. The adoption of governance measures that surpass the national scope, reaching a transnational character, can contribute to avoid or to reduce these problems at least. But, in addition, globalisation seems to have accentuated the unpredictability of the crises, as it can be verified in the current one: it is a global crisis, and, what is more, despite the prior existence of warnings about several imbalances in financial markets and in the global economy, neither supervisors nor the multilateral organisms knew to predict the exact form that it would take, the timing of its onset and the nature of its consequences.

However, this lack of foresight does not seem to be an inherent feature of the current crisis, but rather a common factor to external financial crises in the globalisation era, in so far as most of them were not head off. And it happens despite the existence of large variety of methods to assess country risk and, therefore, to measure the risk of taking place a crises episode, particularly the so-called “country risk indexes”.

The aim of this chapter is to contrast whether the two index most known and used by experts, the *Euromoney* index and the *ICRG*, were capable to predict well in advance the crisis episodes occurred during the period 1994-2002. For this purpose, we consider a sample that includes 13 countries in crisis and 50 countries which, even belonging to the same “country risk group” as the first, did not develop a crisis. On the basis of this sample, both discriminant and *logit* analysis are performed in order to check the success of both index in discriminating between the two groups. The results indicate that neither of selected indexes was suitable for carrying out this objective.

These results suggest two conclusions: the first is that country risk indexes, although are able to reflect a certain set of economic vulnerabilities, do not appear to identify last combination of factors which trigger a crisis; the second one is that in a globalised world the governance models must reject the approaches based on the easy predictability of economic events, assuming on the contrary the relevance of the uncertainty in the analysis and the management of the economic reality.

### ***A New Model to Value Employee Stock Options (ESO) and The Effect of ESO Plans on ESO holders, Stockholders and Bondholders***

Robert Trommsdorff (FACIREM, University of La Réunion, France)

Motivated by recent recommendations by both European and American accounting Standards boards (FASB 1995 and 2004) that executive stock options be expensed in firms' statements, we provide a new Employee Stock Option (ESO) valuation framework which accounts for the vesting period, American style option, Incentive and dilution effects of ESO plan. This model highlights the interactions among ESO holders, Stockholders and Bondholders.

According to Wikipedia the definition of An employee stock option (ESO) is: “ESO is a call option on the common stock of a company, issued as a form of non-cash compensation. Restrictions on the option (such as vesting and limited transferability) attempt to align the holder's interest with those of the business' shareholders”.

A large literature on the subject attempts to value ESO (see Ammann, M., & Seiz, R. 2004 and Feng-Yu Liao, Yuh-Dauh Lyuu, 2009 for a literature review on ESO valuation). We present a “new” framework to the issue of ESO valuation and we analyze the effect of ESO plan for ESO holders, Stockholders and Bondholders.

We present a new model to value employee stock options. This new model is based on the theoretical value of the stock as a call option on the value of the firm (Black&Scholes, 1973) and Geske (1979) compound option framework. Geske (1979) provide an analytical formula for the price of compound options within the Black-Scholes framework. Basically, the procedure consists of the following two steps: at first the underlying option is priced according to the Black-Scholes method; then, the compound Option is priced as an option on this security whose value has already been found in the first step.

ESO is a call option on the stock so it can be analyzed as a compound option, but the Standard option pricing models cannot be used to determine the value of employee stock options (See Hull, J., & White, A., 2004).. Vesting conditions (both time and performance-based), forfeiture of unvested and out-of-the-money options when employees leave the company,

non-tradability of ESO (usually resulting in earlier, sub-optimal, exercise by employees), blackout periods, and other considerations make ESO valuation more complex than standard option valuation. Furthermore as exercising employee stock options leads to issuance of new shares, which increase the number of outstanding shares. Hence a valuation model should take the dilution effect into account.

***Corporate governance and financial performance,***

Jacques-Marie Aurifeille (FACIREM, GDI, University of French Polynesia), Jaime Gil Lafuente (FACIREM, University of Barcelona, Spain) et Christian Dave (FACIREM, Université de La Réunion, France)

The rules of good corporate governance are widely commented among academics and managers. They are, also, more and more strongly recommended in the official codes of conduct firms are expected to follow. However, these recommendations are often ambivalent. Moreover, as a whole, they compose a heterogeneous set of indicators, with mutual contradictions.

Therefore, the scope of the corporate governance rules is questionable: are they just qualitative considerations, to be interpreted and adapted according to the firm, the men and the economic context? In which case, additional rules would be needed to decide who may interpret the rules and how the interpretation should be done. Or, do the governance rules reflect a latent dimension, a common factor along which shareholders and stakeholders can truly score a firm's goodness of corporate governance? In the present article, these questions are addressed in a quantitative way, by analysing the latent structure of the corporate governance of the 134 largest French firms, as reflected by their annual reports and their public information. Based on a structural equation modelling, the dimensionality of the corporate governance rules is analysed in a predictive perspective, with financial performance as the latent dependent variable. Two dimensions of performance are considered: "asset performance", reflected by the PBR and the credit ratings, "profitability", reflected by the future price earning ratios.

Results show that a latent common factor exists, that only a few governance indicators reflect: *ownership concentration, independence of the directors, remuneration committee and governance committee*. Moreover, a negative correlation is observed between *ownership concentration* and the other three indicators. The resulting goodness of governance scale predicts significantly both forms of financial performance, with ownership concentration being the positive determinant of performance.

The role of globalisation in this model is tested by including the level of globalness of a firm as a co-factor of performance. Although, this complete model does not fit the data very well, its significant coefficients comply with theory, in particular the antecedent role of asset performance on future profitability. The effect of the level of globalisation on financial performance also appears to be both complementary and more important than the role of governance quality. In conclusion, the paper proposes some research tracks for conceptualising and measuring governance and globalisation.

**Coffee break: 16h30 - 16h45**

**Session 6: 16h45 - 18h00**  
**ETHICAL AND SOCIAL ISSUES**

*Chairman: Yves-Louis Sage (GDI, University of French Polynesia, France)*

***Ethics and globalisation***

Lorenzo Gascón (Vice-President of the Real Academia de Ciencias Economicas y  
Financieras, Barcelona, Spain)

Many consequences of globalisation are hosting alarm signals with regard to the present weakness of the economic governance. We are right to be worried, very worried. We are enduring deep changes in government, the markets, corporate behaviour and the handling of information. We strongly need guidelines to help and to set us on the right path. Ethics is lacking everywhere. Trust has to be restored in corporations. Transparency and making the inner work visible has to be the way to all. But, pressure on companies to clean up their acts is making it difficult. Executive compensation, out of control is likely to fall back in an effort to create a sense of fairness. When a company makes up or inflates its figures, everyone suffers: investors, financial markets and employees. The whole world is a closed economy. Measures and stimuli won't work without coordination. Years and years of unregulated and risky deals have exposed huge financial corporations to colossal losses. Moreover, those who helped to create the problem are receiving huge bonuses with the losers or the government money. Here, we cannot forget the club of many unscrupulous consultants and auditors. The financial waves in a global world are hitting up the last corner. Nowhere is immune. Ethical bankruptcies have been derailing the global markets. Whenever we ask the experts what we should do, the honest answer would "we don't know". More than money and politics, ideas are the core of the possible solutions. And these mainly have to be based in ethics in this crowded planet with a common fate. Let's add that ethics reduces costs. Trust can be rebuilt Erosion of confidence in the markets is in shock: but, the corporate clean up under way has to afford positive results. Ethics is the key word and good governance and the personal example are the right tools

***Gouvernance des organisations et « biologisation » des rapports sociaux : un enjeu du  
XXI<sup>ème</sup> siècle,***

Bernard Roullet and Olivier Droulers (IREA, University of South Brittany, France), Marie-  
Pierre Pinto (CREOP, University of Limoges, France)

In a subtle and inconspicuous way, the invention and the growing practice of functional brain imaging (fMRI) in the early 1990s have revolutionized the approach to cognition in living organisms. Far from only focusing on biology and physiology, advances in (cognitive and affective) neurosciences have slowly but heavily pervaded the humanities and social sciences (HSS). Today, a researcher in HSS, particularly in political science, sociology, education science or public governance, cannot overlook some achievements of neuroscience which are profoundly altering our vision of the human being and her relations with her kin, without running the risk of being disconnected from the research leading edge. Now, neuroscience provides new paradigms to renew, refresh and transform the theories that have prevailed until now for nearly a century or more. Now considering the decision making process (in situations of uncertainty or not), the risk aversion, the pursuit of power, the

correlates of attitudes and beliefs, the foundations of leadership (or followership), the process of persuasion or conversion, the phenomena of burnout and resilience, requires bearing in mind works of neuroscientists who bring new insights that are very complementary to conventional approaches in HSS. Any public organization which has authority over any aspect of social policy (justice, education, law enforcing, ethics, citizenship and so forth) could enrich its reflection, its judgment and its developing projects, in taking into consideration the neuroscientific breakthroughs that confirm or on the contrary refute social dogmas or doctrines. Some authors thus advocate an epistemological pluralism that could benefit the different stakeholders (Farmer, 2008).

The authors propose to outline the recent growth of the brain sciences and to replace contextually their contributions to various disciplines of HSS, and to suggest the main venues of research in which they will prove to be essential in the future, in the study of organization governance.

***The Challenges of Legal Pluralism in the South Pacific in the context of the globalisation of trade***

Tony Angelo (Victoria University of Wellington, New Zealand) and Yves-Louis Sage (GDI, University of French Polynesia, France)

The legal systems of the small island states of the Pacific have to engage with modernisation in order to avoid being excluded from the globalisation movement and the indispensable development aid to which it gives access. This movement which represents the implementation of the principle of universalism has as a consequence a devaluing of social and cultural diversity. Despite the official statements of the proponents of globalisation, universalism, for legal systems as well, is far from being a unifying factor among the small island states of the South Pacific. Regarded as the corollary of an economic and cultural system which is imposed on them by the leading industrialised states, globalisation is a cause of the loss of the specific identities of the small island states and is regarded by them as a thinly disguised form of neo-colonialism.

**GALA DINNER: 21h00**  
**at the "Círculo Ecuéstre de Barcelona".**  
(Suit and tie are mandatory)



## Thursday 12 November

### **Meeting of the FACIREM: 9h30 - 11h00**

#### *Editorial project*

- Title and structure of the book
- Coordination of the book
- Publisher
- Further comments on the articles
- Timetable

#### *Administrative and institutional issues*

- Membership
- Status of the research laboratory
- Partnerships

### **SOCIAL EVENTS**

**Academic visit: 11h00 - 15h00**

**Invited cocktail: 19h30**

# **PROCEEDINGS**

***Session 1 : SUSTAINABILITY***

***Chairman: Patrick Valéau (FACIREM,  
Université de La Réunion, France)***

***. Reflections on the future of Corporate  
Sustainability*** ***p. 18***

Ana Maria Gil Lafuente (Universidad de  
Barcelona, Spain)

***. Environmental Governance, Globalisation and  
Economic Performance*** ***p. 37***

Clement Tisdell (FACIREM, University of  
Queensland, Brisbane, Australia)

***. Los retos de la globalización y gobernanza en  
tiempos complejos*** ***p. 61***

Mario Aguer Hortal, (Real Academia de Ciencias  
Economicas y Financieras, Barcelona, Spain)

# ***REFLECTIONS ON THE FUTURE OF CORPORATE SUSTAINABILITY***

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## Abstract

In the last decades we have watched various economic, political, social and environmental changes in several parts of the world, which in a direct or indirect way they affect the managerial environment and consistently to the companies. In the 21st century with the globalization of the markets, the economies there are more dependent some of others, and at the same time more capable to the crisis, which generates also a major degree of uncertainty. In addition, question as the sustainable development, the climatic change, the sustainability and corporate responsibility, among others, nowadays they are in evidence what makes increase the responsibility of the companies to its stakeholders. The need to stimulate the economic development of sustainable form is a challenge for private companies and government institutions, which in recent decades have sought solutions in this regard through protocols, conventions and agreements that were negotiated in several international summits. At the same time, the creation of guides, standards, certification systems, codes of conduct and ethical principles, they provide to the company a broad discussion about the management tools that are used to ensure sustainable development planning. In this context, our aim is to reflect on the future of corporate sustainability by means of to all these instruments and management policies applied to sustainable development in the company.

Keywords: globalization, governance, corporate sustainability, sustainable development.

## 1. INTRODUCTION

The concept of sustainable development was consolidated in the Brundtland report (WCED 1987), being that which "allows the attention the needs of current generations without compromising the needs of future generations." For Elkington (1994) the sustainable development in the company, is one that contributes to sustainable development by providing at the same time, economic, social and environmental benefits - the so-called triple bottom line. In agreement with the Green Book (Commission of the European Communities, 2001) the corporate responsibility can be defined as "the voluntary integration, by companies, social and environmental concerns in their business operations and their relationships with their

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stakeholders". The need to promote sustainable economic development is a challenge for private companies and government institutions, which in recent decades have sought solutions in this regard through protocols, conventions and agreements, which were agreed in several international summits. At the same time, the creation of guidelines, standards, certification systems, codes of conduct and ethical principles, provide the enterprise a wide debate about the management tools that are used to ensure sustainable development planning. In this context, our aim is on thinking on the future of corporate sustainability through all these instruments and management policies applied to sustainable development in the company, beside proposing models approaches that allow to rediscover new ways of managing not only the companies but of managing your aims, strategies and policies to make them compatible prosperity of companies with a quality of life at the planetary level.

## 2. INTERNATIONAL EVENTS

In the last decades, private companies and government institutions have sought solutions to stimulate the economic development in a sustainable manner. With the implementation of several international summits, which were agreed protocols, conventions and agreements in order to reach sustainability. Below we emphasize the principal events.

In 1972 there is realized in Stockholm, the first World Conference on Environment that it was an important frame for the debates on the development and the environment, and that has been the beginning of the search of proofs for the mitigation of the effects of the climate change. In 1976 a wide political commitment is adopted to promote the investment among the countries members of the OECD, known as the Guidelines for Multinational Companies. The Guidelines describe the voluntary standards, recommendations for responsible business conduct in a wide range of social and environmental issues such as human rights, disclosure, labor and the environment. The Guidelines are intended to ensure that the lines of the activities of these enterprises are in harmony with government policies to strengthen the foundations of mutual trust between companies and societies in which they conduct operations to help improve the climate for foreign investment and support for sustainable development made by multinational companies.

However, the issue of sustainability becomes more visible from the '90s with the realization of the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in June 1992, which has sought to promote and recommend policies for a sustainable development.

In 1997 with the Kyoto Protocol seeks to promote sustainable development through the implementation of commitments to limit and reduce CO<sub>2</sub> emissions in the atmosphere. In 1999 there is signed the Global Compact of the United Nations which is composed of ten principles of corporate citizenship that are based on internationally agreed conventions and treaties on human rights, labor relations, environmental protection and fight against corruption. The major advantage of the Global Compact is its universal character, so that provides a common framework to companies in different countries. At the same time, the initiative is voluntary and flexible in order that it is possible to adapt it to the particular needs of each situation and each company. The Global Compact's operational phase was launched in July 2000 at United Nations Headquarters in New York and even then the first companies joined the initiative. The creation of the Green Book in 2001, for the Commission of the European Communities, reinforces the importance of the issue of sustainability to promote a European framework for corporate social responsibility. In 2007 the Fourth Assessment Report of the Intergovernmental Panel Climate Change (IPCC) confirms that the planet is undergoing a process of anthropogenic global warming, and notes that despite all the initiatives of recent years by governments, businesses and society, we still need to find other

mechanisms that can contribute to sustainable development. Finally, it is necessary to highlight the Summit of the G-20 held in London in April 2009. In agreement with the chiefs' summit of State and of Government, the political leaders of the G-20, group that represents 85% of the world economy and two thirds of the world population, agreed the reform of the financial global system. It should be noted, the fiscal expansion proposal "unprecedented and concerted action" which amounts to 5 billion dollars until 2010 to create millions of employments, to raise 4% the word GDP and to do the transition towards the "green economy". The aim is to reduce our dependence of the fossil fuels, as the oil, and increase the energetic safety using alternative sources and without carbon as sources for energy. The future of international energy policy will depend on a combination of energy sources: solar, wind, nuclear, clean coal and other clean energy technologies. For Cano *et al.* (2009) the summits provided a platform to incorporate the idea of sustainability action plans of local, regional and global, where gradually has expanded its study, application and discussion of its main themes. In the Table 1 is a summary of major international events that were designed to create a governance framework to address a new type of more harmonious development between all levels (environmental, economic, social and institutional).

TABLE 1 - International Events related to the sustainability

EVENTS	YEAR	OBJECTIVES	RESPONSIBLE ENTITY	PLACE
The first World Conference on Environment.	1972	Was an important milestone for the debates on the development and the environment and the beginning of the search of proofs of the mitigation of the effects of the climatic change.	United Nations (UN)	Stockholm, Sweden
Creation of the Program of the United Nations for the Environment (PNUMA)	1972	To coordinate the activities related to the environment, representing to the countries in the implementation of environmental suitable policies as well as to fomenting the sustainable development.	United Nations (UN)	Stockholm, Sweden
The Guidelines (OECD) Guidelines for Multinational Enterprises	1976	The Guidelines are intended to ensure that the lines of the activities of these enterprises are in harmony with government policies to strengthen the foundations of mutual trust between enterprises and the societies in which they conduct operations to help improve the climate for foreign investment and help for sustainable development made by multinational enterprises.	Organisation for Economic Co-Operation and Development (OECD)	France
The Vienna Convention for the Protection of the Ozone Layer	1985	The Parties to the Convention were determined to protect human health and the environment against adverse effects resulting from changes in the ozone layer.	Ozone Secretariat United Nations Environment Programme (UNEP)	Vienna, Austria.
Brundtland Report	1987	In this report, prepared by various nations to the UN was first used the term sustainable development, defined as one that meets present needs without compromising the needs of future generations. It involves a major change regarding the idea of sustainability, primarily ecological, and also a framework that gives emphasis to economic and social context of development.	World Commission on Environment and Development	Geneva, Switzerland.
The Montreal Protocol on Substances that Deplete the Ozone Layer	1987	The Montreal Protocol has discussed this issue on Substances that Deplete the Ozone Layer in order to stop the production and consumption of substances that deplete the ozone layer.	Ozone Secretariat United Nations Environment Programme (UNEP)	Montreal, Canada.
United Nations Conference on Environment and Development (UNCED)	1992	The Conference has tried to promote and recommend policies for sustainable development and they approved the agreements such as the Rio Declaration on Environment and Development, Agenda 21, Convention on Biological Diversity, Framework Convention on Climate Change, and Statement of Principles on Forests.	United Nations (UN)	Rio de Janeiro, Brazil.
Kyoto Protocol to the United Nations framework convention on climate change	1997	To promote the sustainable development each of the Parties should implement their commitments to limit and reduce CO <sub>2</sub> emissions in the atmosphere.	United Nations (UN)	Kyoto, Japan.
UN Global Compact	1999	The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.	United Nations (UN)	Davos, Switzerland.
United Nations Millennium Declaration	2000	The topic treats sustainable development, and considers to be the respect of the nature and the common responsibility essential values for the international relations in the 21st century.	United Nations (UN)	New York, United States.
Creation of Green Book	2001	To ferment an European frame for the social responsibility of the companies.	Commission of the European Communities	Brussels, Belgium.
World Summit on Sustainable Development	2002	It treats the multilateralism as a key strategy in the fulfillment and the application of the principles of the Sustainable Development.	United Nations (UN)	Johannesburgo, Sudáfrica
Stem Review Report on the Economics of Climate Change	2006	Report on the impact of the economy and climate change.	Economic and Social Research Institute Hamburg, Vrije and Carnegie Mellon Universities	United Kingdom
Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)	2007	Report that notes that our planet is undergoing a process of anthropogenic global warming and provides scientific, technical and socioeconomic information relevant for the understanding of climate change.	World Meteorological Organization and United Nations Environment Programme (UNEP)	Bangkok, Thailand.
The London Summit 2009 - G20	2009	Reforming the global financial system is necessary to: restore confidence, growth, and jobs; repair the financial system to restore lending; strengthen financial regulation to rebuild trust; fund and reform our international financial institutions to overcome this crisis and prevent future crises; promote global trade and investment and reject protectionism, to underpin prosperity; and build an inclusive, green, and sustainable recovery.	The Group of Twenty (G20) Finance Ministers and Governors of Central Banks of Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, Africa South Korea, Turkey, UK and USA.	London

Source: own elaboration (2009)

### 3. GUIDELINES AND STANDARDS APPLIED TO SUSTAINABILITY

The various existing standards provide to the company with a broad discussion about the management tools that are used to ensure sustainable development planning. These are mainly domestic mobilization necessary to achieve a detailed diagnosis and reliable commitment to the organization. For Olcese *et al.* (2008) these methodologies and tools have been developed with the aim of attracting the adherence of business to sustainable development and corporate responsibility, and improve their social impact and reputation. Consequently, standards are also part of the strategy of organizations. According Louette *et al.* (2007) we distinguish two types of rules in accordance with the aims of its supporters. There are those that are published by official standards organizations, among which include: ISO 14000 (environmental), ISO 9000 (quality), EC EMAS (Environmental), BS 8800 (working conditions) and BS 8855 (environmental). The market has encouraged the creation of institutions that regulate certain high standards of management in areas such as security and working conditions, among others. Here the most important rules are: SA 8000 (social rights), OHSAS 18001 (risks / accidents) and AA 1000 (accountability). In our study we observed the creation of social accountability standards in several countries, the main highlight: Brazil (ABNT NBR 16001), UK (BS 8900), Australia (AS 8003), France (SD 21000), Israel (IS 10000), Japan (EC S2000), Italy (Q-Res) and Germany (VMS). On the basis of world demand on the theme of social responsibility, is underway and scheduled for September 2010, the creation of a third generation of standards - the ISO 26000 Social Responsibility - without taking into account the presentation of guidelines for certification. The document is intended to add value, not replace, the intergovernmental agreements with relevance to social responsibility, as the Universal Declaration of Human Rights United Nations, as well as those adopted by the International Labor Organization (ILO). The rule will address issues of corporate responsibility to the environment, human rights, labor practices, the government, organization, fair business practices, community participation and social development and protection of consumers. Tables 2 and 3 present a summary of the evolution of the main guides, standards, certification systems and codes of conduct related to sustainability. We note that this process begins in 1987 with the publication of ISO 9001, intensified in the 1990s, reaching broader worldwide in the 2000s.



TABLE 2 - Evolution of the main guidelines, standards and certification systems related to sustainability.

Guidelines, standards and certification systems	YEAR	DESCRIPTION	RESPONSIBLE ENTITY	PLACE
ISO 9000	1987	The ISO 9000 family addresses "quality management". This means what the organization does to fulfill the customer's quality requirements and applicable regulatory requirements, in order to improve customer satisfaction and achieve continual improvement of its performance in pursuit of these objectives. ISO 9001 - System of quality management is the most popular of the series.	International Organization for Standardization (ISO)	Sweden
ValuesManagementSystemZfW - VMSZfW	1988	It is the standard management of values that includes the moral dimension of economic transactions and other issues of securities to the strategies, policies and procedures of companies (standard procedures).	German Business Ethics Network (DNWE)	Germany
EU Regulation No 761/2001 of Eco-Management and Audit Scheme (EMAS)	1995	Eco-management systems, as formalized in the ISO 14000 and EMAS Regulation define the method of operation to be adopted by Companies willing to achieve an integrated environmental management, thus allowing continuous improvement in their environmental performance.	European Commission	Europe
ISO 14000	1996	The ISO 14000 series addresses "environmental management". This means what the organization does to minimize harmful effects on the environment caused by its activities and to ensure continuous improvement in environmental performance. The ISO 14001 is the most popular of the series and provides the basic guidelines for developing an environmental management system in the company.	International Organization for Standardization (ISO)	Sweden
British Standards 8800 – BS 8800	1996	Standard addressed to the management of occupational health and safety, with the possibility of auditing and certification.	British Standard Institution – BSI	England
SA8000 (Social Responsibility)	1997	The SA 8000 is a voluntary standard, certifiable, which facilitates the introduction of a management system to improve working conditions in the company.	Social Accountability International (SAI)	United States
Occupational Health and Safety Assessment Series. OHSAS 18001	1999	The OHSAS 18001 is a management system with the approach to occupational health and safety. In other words, the OHSAS 18001 is a tool that allows the company to achieve and systematically monitor and improve the performance level of health and safety requirements set by itself. The implementation of OHSAS 18001 reflects the concern of the company with the physical integrity of its employees and partners.	Occupational Health and Safety Assessment Series	United States
Ethics Compliance Management System Standard - ECS 2000	1999	The ECS 2000 is a standard that assists the implementation of Compliance with legal and ethical systems in organizations, in accordance with the principles of Human Rights and Freedom and the Co-Prosperity in the market economy.	Japan Society for Business Ethics Study	Japan
SGE 21	1999	Business Standard SSG 21 is the first system of management of European social responsibility that allows, on a voluntary, audit processes and achieve a certificate in Management Ethics and Social Responsibility.	Forum for the Evaluation of Ethical Management – Forética	Spain
Good Corporation Standard	2001	It is a certification awarded to organizations that demonstrate responsible management practices and improvements in relation to social, ethical and environmental basis of a set of criteria.	A Good Corporation Ltd.	United Kingdom
SI 10000	2001	SI10000 standard addresses the practices of "social responsibility and community involvement.	Standards Institution of Israel (SII)	Israel
British Standard 8555 – BS 8555	2003	Set of standards for environmental management aimed at small and medium enterprises (SMEs). Application (stages) of an environmental management system with the aim of continuous improvement and preparation for ISO 14001 and EMAS registration (European Regulation EMAS).	The Acorn Trust	United Kingdom
SD 21 000	2003	SD 21000 Guide represents the French contribution to international debate on sustainable development standards, organized by the ISO. However, the recommendations of the Guide to SD 21000 are not intended for certification, its main goal is to be a guide to good practice.	Association Française de Normalisation - AFNOR	France

Source: own elaboration (2009)

TABLE 3 - Evolution of the main guidelines, standards and certification systems related to sustainability.

Guidelines, standards and certification systems	YEAR	DESCRIPTION	RESPONSIBLE ENTITY	PLACE
Q-RES	2003	Management model for corporate social and ethical responsibility that can be adapted to private companies, public organizations and associations, based on the concept of strategic, fair and efficient management of stakeholder relations.	Center for Ethics, Law & Economics – CELE	Italy
AS 8003 Standards Australia	2003	The AS 8003 standard is one of the first in the world focused on the implementation of corporate social responsibility integrated into the company's policies and culture.	Australian Standards Corporate Social Responsibility	Australia
ABNT NBR 16001	2004	The standard is to provide organizations with the elements of a system of effective management of social responsibility, can enable integration with other management requirements in order to help them achieve their goals related to social responsibility issues.	Brazilian Association of Technical Standards - ABNT	Brazil
CSR framework of EFQM	2005	Management System for Corporate Social Responsibility. Recommendations on how to identify, improve and integrate the economic, social and environmental operations within the policy, strategy and day to day management of the organization, taking account em interest groups thereof.	European Foundation for Quality Management	Belgium
EFR1000	2005	It is an international movement that, as part of corporate responsibility initiatives, deals move and provide answers in terms of responsibility for reconciling work and family life, support on equal opportunities and inclusion of disadvantaged.	Fundación+familia	Spain
British Standards 8900 – BS 8900	2006	It is a set of guidelines, with no certification purposes, for organizations of all sizes, types and sectors, on the options for managing sustainability through balancing the social capital and the environmental and economic capitals of the business, focusing on continuous performance improvement and accountability.	British Standard Institution – BSI	England
ISO 14064/65	2006	International standards providing guidelines and procedures for CDM (Clean Development Mechanism) projects implementation provided for in the Kyoto Protocol, encompassing concepts of climate change, GHG emissions and removals.	International Organization for Standardization (ISO)	Sweden
ISO 26000/UNE 165010	2010	ISO, the International Organization for Standardization, has decided to launch the development of an International Standard providing guidelines for social responsibility (SR). The guidance standard will be published in 2010 as ISO 26000 and be voluntary to use. It will not include requirements and will thus not be a certification standard.	International Organization for Standardization (ISO)	Sweden
<b>Guidelines for codes of conduct and ethical principles</b>	<b>YEAR</b>	<b>DESCRIPTION</b>	<b>RESPONSIBLE ENTITY</b>	<b>PLACE</b>
Global Compact	2000	UN Global Compact is a both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a leadership initiative endorsed by chief executives, it seeks to align business operations and strategies everywhere with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.	United Nations (UN)	Switzerland
<b>Social reporting guides or information systems</b>	<b>YEAR</b>	<b>DESCRIPTION</b>	<b>RESPONSIBLE ENTITY</b>	<b>PLACE</b>
AA1000	1999	Certifiable international standard consisting of processes and principles focused on stakeholder engagement.	ISEA (The Institute of Social and Ethical AccountAbility)	United Kingdom
G3 - Global Reporting Initiative	2002	The G3 (third version of the guide) is an international benchmark for excellence used by organizations for the development of sustainability reporting. The GRI is defined as an independent institution whose mission multigroup interest is to develop and disseminate guidelines for sustainability reporting global application.	Global Reporting Initiative	Netherlands

Source: own elaboration (2009)

#### 4. REFLECTIONS ON THE THEME

Increasingly, interest groups require organizations to be more responsible with the environment (Hart, 1995, Porter and van der Linde, 1995). The reasons for these claims are mainly regulatory requirements, environmental care, improved public image, and the potential to expand the customer base and increase competitiveness (Hart, 1995, Porter and Van der Linde, 1995). It is argued that the performance of the sustainability of a business can also be regarded as a measure of operating efficiency and figure out what proactive steps in the environment may produce long-term gains. For Elkington (1999), the concept of sustainability, in essence, demonstrates from the start that has been a difficult task to integrate a diverse set of requirements in relation to the development of mankind in the long term future. Integrated into a contradictory context of economic, social and ecological aspects, represents an effort to balance the demands and aspirations fundamentally divergent. Overall, this leads to a broad and controversial debate continued on a theoretical level and in particular with regard to their practical application within the company. For Hart and Milstein (2003), sustainability is a complex and multidimensional concept that cannot be solved by a single corporate action. Respecting the environment has become a necessity rather than just an idea (Cambra-Fierro *et al.*, 2008). A growing number of voices has warned of the deterioration of the environment and its negative consequences, but have found that market forces are insufficient to regulate the impact of business. For this reason, according to Cambra-Fierro *et al.*, (2008), it is necessary to articulate a set of rules that consider the particularities of each industry and force companies to minimize their environmental impact. According to Olcese *et al.* (2008), "the existence of legislation or a law regulating or requiring companies to assume and carry out activities associated with corporate responsibility, is one of the aspects most controversial and less consensual in the debate that on this matter exists between companies and social organizations worldwide. To date there is no agreed standard and internationally accepted that, besides being a reference to required consultation, covering all the aspects related to corporate responsibility. "<sup>2</sup> Moreover, issues such as sustainable development, climate change, sustainability and corporate responsibility, among others, are currently in the spotlight, which increases the need to manage these issues in front of their business interest groups. The worry for economic development and its consequences affect the society and especially to the companies, which need to find mechanisms to survive in a market increasingly complex and competitive. Therefore, we propose the use of models to rediscover new ways to manage not only businesses but their objectives, their strategies and policies to support the prosperity of companies with a sustainable quality of life at the planetary level. To do this we must rely on flexible models that allow hybrid treatment of objective and subjective estimates and allowing for estimates of the future conduct of companies, institutions and social actors, and thereby offering a redesign in economic relations that affect all entities involved. In Table 4, we propose an approach to managing the sustainability in the enterprises.

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<sup>2</sup> OLCESE, A.; RODRÍGUEZ ÁNGEL, M.; y ALFARO, J. *Manual de la empresa Responsable y Sostenible*. Madrid: McGraw-Hill, 2008, p. 188.

TABLE 4 - Approaches to managing the sustainability in the enterprises

General Objective	Particular objectives	Action Lines	Techniques
To propose the model utilization that there allow to rediscover new ways of managing the sustainability in the enterprises.	To develop new applications and management models for decision making.	Human resources management Supplier management Customer management	Hamming's distance, Coefficient of Adequacy, OWA operators Models of Subjective Preferences Theory of affinities
	To show the utility of these models in sustainable development in companies by the Theory of Stakeholders.	Identification, prioritization and dialogue with stakeholders. Business decision processes. Implementation of eco-efficiency practices in businesses.	Clans Theory Chain of inference Theory of the Forgotten Effects Coefficient of Qualification, Hungarian Algorithm
	To implement new contributions to the methodological knowledge in decision theory	Risk management: social, economic and environmental. Other applications	Other techniques

Source: own elaboration (2009)

Many of the techniques that we propose have been implemented in different processes in which sustainability is involved in its different aspects. To illustrate, the Theory of the Forgotten Effects<sup>3,4</sup> (sequential processing technique that allows cause and effect relationship developed from incidence matrices to obtain or retrieve items that did not account for the experts because it is hidden or indirect impact) has been used in the selection of elements that contribute to sustainable growth of the company (Barcellos Paula and Gil Lafuente, 2009) and in the analysis of organic purchasing decisions of consumers (Gil Lafuente, AM *et al.* 2005 2006).

## 5. CONCLUSIONS

In this context, our focus is on thinking about the future of corporate sustainability through all these instruments and management policies applied to sustainable development in the company. It is important to consider that in recent years the issues related to "sustainability", "sustainable development" and "corporate responsibility" have gained greater relevance in both the professional and business as a scientific level. But we wonder how long? Or is it that the lack of consensus or overly concerned with sustainability standards can put in risks your own future? In this context it will be essential to create the conditions for future maintenance of the level of involvement of economic, institutional and social issues related to sustainable development for future generations can live in harmony with the resources that our planet offers us. This will be necessary to maintain a constant level of agreement and consensus in international institutions by creating comprehensive and flexible rules. The future of sustainability would then standardize or consensus standards, and / or a mandatory regulatory compliance. And on the other hand to raise how to face to all these demands in moments of crisis, who would take responsibility for the costs of adequacy, or what role he would play the State as person in charge of granting major incentives, fiscal subsidies and etc, to sustainable enterprises. We believe that our contribution will serve to support future research in the field of corporate sustainability and that these lines can contribute positively to developing nations.

<sup>3</sup> KAUFMANN, A. Y GIL ALUJA, J. (1988). *Modelos para la investigación de efectos olvidados*. Editorial Milladoiro. Vigo.

<sup>4</sup> GIL LAFUENTE, A.M. (2008): *Incertesa y Bioingenyeria*, p. 52-63. Barcelona: Real Academia de Doctores.

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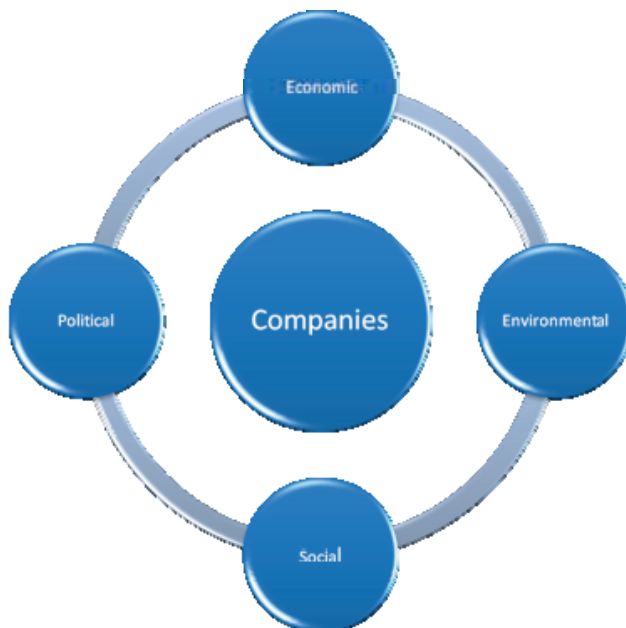
# REFLECTIONS ON THE FUTURE OF CORPORATE SUSTAINABILITY

Franco-Australian Centre for International Research in Management Science  
(FACIREM)  
"Globalisation and Governance"  
Barcelona, November 2009

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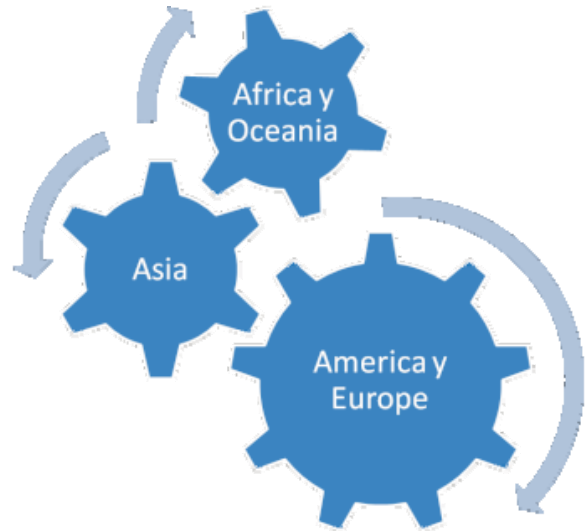
## Introduction



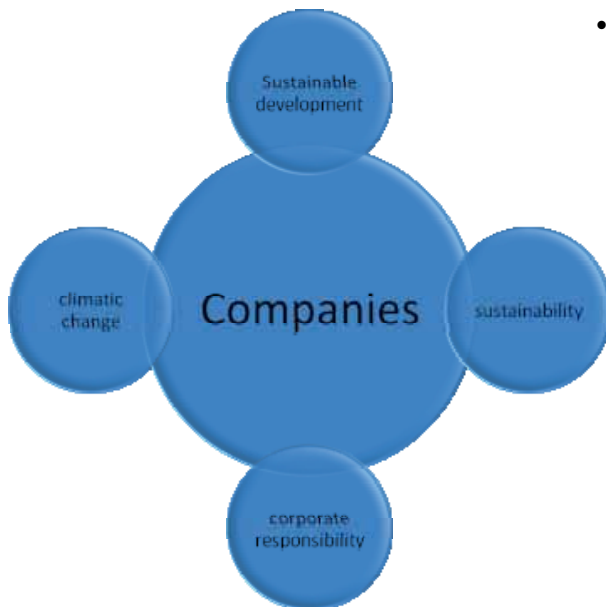
- In the last decades we have watched various economic, political, social and environmental changes in several parts of the world, which in a direct or indirect way they affect the managerial environment and consistently to the companies.

# Introduction

- In the 21st century with the globalization of the markets, the economies there are more dependent some of others, and at the same time more capable to the crisis, which generates also a major degree of uncertainty.



# Introduction

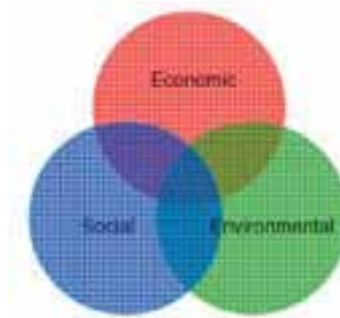


- In addition, question as the sustainable development, the climatic change, the sustainability and corporate responsibility, among others, nowadays they are in evidence what makes increase the responsibility of the companies to its stakeholders.



# The concept of Sustainable Development

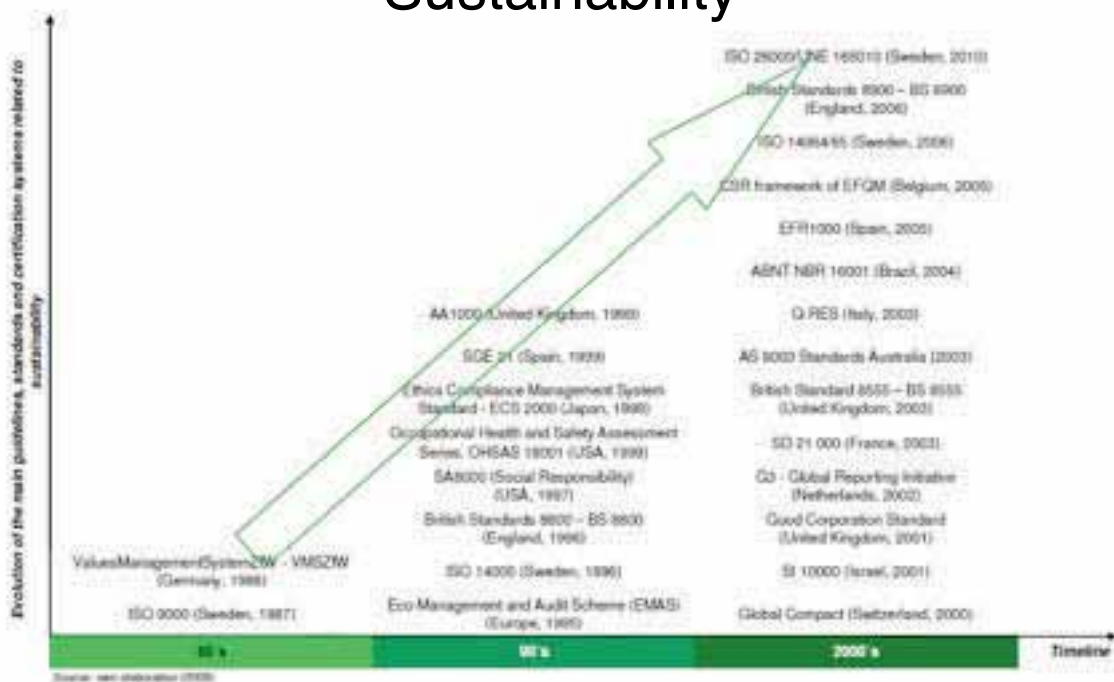
- The concept of sustainable development was consolidated in the Brundtland report (WCED 1987), being that which “allows the attention the needs of current generations without compromising the needs of future generations.”
- For Elkington (1994) the sustainable development in the company, is one that contributes to sustainable development by providing at the same time, economic, social and environmental benefits - the so-called **triple bottom line**.



## International Events



# Guidelines and Standards applied to Sustainability



## Reflections on the theme

- In this context, our aim is to reflect on the future of corporate sustainability by means of all these instruments and management policies applied to sustainable development in the company.
- Increasingly, interest groups require organizations to be more responsible with the environment (Hart, 1995, Porter and van der Linde, 1995).
- For Hart and Milstein (2003), sustainability is a complex and multidimensional concept that cannot be solved by a single corporate action.
- According to Cambra-Fierro *et al.*, (2008), it is necessary to articulate a set of rules that consider the particularities of each industry and force companies to minimize their environmental impact.

## Reflections on the theme

- The worry for economic development and its consequences affect the society and especially to the companies, which need to find mechanisms to survive in a market increasingly complex and competitive.
- Therefore, we propose the use of models to rediscover new ways to manage not only businesses but their objectives, their strategies and policies to support the prosperity of companies with a sustainable quality of life at the planetary level.
- To do this we must rely on flexible models that allow hybrid treatment of objective and subjective estimates and allowing for estimates of the future conduct of companies, institutions and social actors, and thereby offering a redesign in economic relations that affect all entities involved.

## Conclusions

- It is important to consider that in recent years the issues related to "sustainability", "sustainable development" and "corporate responsibility" have gained greater relevance in both the professional and business as a scientific level. But we wonder how long?
- Or is it that the lack of consensus or overly concerned with sustainability standards can put in risks your own future?
- In this context it will be essential to create the conditions for future maintenance of the level of involvement of economic, institutional and social issues related to sustainable development for future generations can live in harmony with the resources that our planet offers us.

# Conclusions

- This will be necessary to maintain a constant level of agreement and consensus in international institutions by creating comprehensive and flexible rules. The future of sustainability would then standardize or consensus standards, and / or a mandatory regulatory compliance.
- And on the other hand to raise how to face to all these demands in moments of crisis, who would take responsibility for the costs of adequacy, or what role he would play the State as person in charge of granting major incentives, fiscal subsidies and etc, to sustainable enterprises.
- We believe that our contribution will serve to support future research in the field of corporate sustainability and that these lines can contribute positively to developing nations.

## Approaches to managing the sustainability in the enterprises

General Objective	Particular objectives	Action Lines	Techniques
To propose the model utilization that there allow to rediscover new ways of managing the sustainability in the enterprises.	To develop new applications and management models for decision making.	Human resources management Supplier management Customer management	Hamming's distance, Coefficient of Adequacy, OWA operators Models of Subjective Preferences Theory of affinities
	To show the utility of these models in sustainable development in companies by the Theory of Stakeholders.	Identification, prioritization and dialogue with stakeholders. Business decision processes. Implementation of eco-efficiency practices in businesses.	Clans Theory Chain of inference Theory of the Forgotten Effects Coefficient of Qualification, Hungarian Algorithm
	To implement new contributions to the methodological knowledge in decision theory	Risk management: social, economic and environmental. Other applications	Other techniques

Source: own elaboration (2009)

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Thank you very much.

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# ***ENVIRONMENTAL GOVERNANCE, GLOBALISATION AND ECONOMIC PERFORMANCE<sup>5</sup>***

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## **ABSTRACT**

Increasing globalisation of economic activity and accompanying economic growth have been factors in the worldwide loss of natural environments and biodiversity loss, and these losses have accelerated since the beginning of the Industrial Revolution. Emissions of many types of pollutants and wastes from human activity are rising globally and are exceeding the capacity of natural environments to absorb and neutralize them. This problem is exacerbated by the fact that the quality and size of some natural sinks for neutralizing them (such as forests) are declining. Consequently, these wastes are accumulating in many environments and pose a growing threat to human welfare and to sustainable economic development. There are, for instance, global concerns about greenhouse gas emissions, about the release of ozone-depleting substances and about the worldwide loss of existing biodiversity. Many new transboundary and local environmental issues have also emerged as a result of global economic growth. After considering such matters, arguments for global governance and the international harmonization of rules for regulating environmental use are examined. Reasons why the global spread of the Western evolved economic system reduces moral responsibility for environmental damage and increases the need for greater and more effective global and international environmental governance are outlined. Subsequently, several important global and international environmental problems are identified and shortcomings in their governance are highlighted. Further analysis is then completed to discover reasons why as economic globalisation increases, there are continuing failures in market and political systems to provide adequate governance of global and international environmental problems.

**Keywords:** environmental economics, environmental governance, environmental law, environmental regulation, globalisation, global warming, greenhouse gases, transboundary pollution, transboundary natural resources.

## **1. Introduction**

All regions of the world have now become more closely interconnected in their economic operations as a result of growing market-oriented globalisation, a process described, for example, by Tisdell and Sen (2004, Ch.1) and Tisdell (2005) . In addition, global and international environmental problems have grown in importance and it is recognised that

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<sup>5</sup> A paper prepared for the 4<sup>th</sup> international colloquium of the Franco-Australian Centre for International Research on Management Science (FACIREM) to be held in Barcelona 10-12 November, 2009 under the auspices of the Spanish Royal Academy of Economic Science and Management. The theme of this colloquium is 'Globalisation and Governance'.

these need to be better addressed by extensions in governance, including more effective global governance. These aspects are not entirely unrelated because it is widely believed (for instance, by bodies such as the World Trade Organization, WTO) that greater economic globalisation stimulates economic growth, an outcome which the WTO favours. On the other hand, many neo-Malthusians argue that global economic growth of the type that has occurred since the Industrial Revolution is unsustainable because of its depletion of the stocks of natural resources and because of its continuing adverse impacts on natural environments, and, in some cases, also its negative effects on man-made environments and anthropogenic resource stocks, such as the diversity of cultivated crops and domesticated livestock. The spectre has emerged (according to neo-Malthusians) of reduced economic scarcity (greater wealth) now as a result of economic growth at the expense of much greater economic scarcity in the future. The necessary conditions for sustainable economic growth are subject to debate and official reports such as the Brundtland Report (WCED, 1987) may have been overly optimistic about the prospects of achieving sustainable development. There appears to be strong political and institutional pressure for high rates of economic growth even though these may eventually add to economic scarcity, that is to a lack of sustainable development. The strong institutional constraints that are hampering efforts to achieve sustainable development are outlined in Tisdell (1999, Ch. 6).

Because some environmental problems (such as global warming and biodiversity loss) have become matters of global concern and because several of these problems need to be addressed by improved global governance, the focus of this article is on environmental governance and how it affects economic performance. Initially, reasons are given about why the spread of the market system and increased globalisation are likely to add to important environmental problems and some of these major environmental problems are identified and discussed. After considering general failures in environmental governance, limitations of Western market systems as means for providing guidance on environmental use are outlined and then political inadequacies that contribute to lack of environmental deterioration are identified. No easy solution to these problems appears to be in sight.

## **1. Consequences of the Global Economic System and Increased Globalisation for the State of the Environment.**

### *1.1 The tendency of modern economic systems to reduce the felt moral responsibility of individuals for environmental damage caused by their economic activity*

There is a strong tendency for the spread of Western-evolved economic systems based on a combination of market mechanisms and hierarchical procedures to reduce the moral responsibility individuals feel for the environmental damages caused by their economic choices. This occurs for a variety of reasons, many of which have been outlined in Tisdell (1990, Ch. 2).

Most economists have praised the ability of market systems to co-ordinate economic activities in relatively complex modern economies which involve a high degree of interdependence and often remote interconnections between different activities. It is argued that such systems are relatively efficient and perform well if they incorporate a sufficient amount of market competition. Originally it was believed that such systems would be most advantageous if they were perfectly competitive but later economists such as John Maurice Clark (1940) argued that workably competitive markets might show superior economic performance in practice to perfectly competitive markets; a view compatible with that developed by Schumpeter (1954).



Whereas the former group of economists (neoclassical scholars) tended to emphasize allocative efficiency, the latter group stressed the dynamic economic (growth) performance of economic systems.

Despite these differences, a general consensus has emerged amongst economists that market systems have desirable economic consequences because they minimize the amount of information and costs of decision-making needed to ensure their relatively efficient operations of economies compared to economic systems that are highly centralized. As emphasized by members of the Austrian School of Economics (for example, Hayek, 1948), each economic actor in a market system need only have knowledge of a limited number of economic parameters in order to make 'optimal' economic choices. For example, a consumer in purchasing a commodity from a supermarket need only know its relative price and need not know by whom its ingredients were supplied, how they were supplied and from where they came. While this is an appealing consequence of modern market systems, it also has some drawbacks.

In such a system, buyers are likely to be completely or partially unaware of many of the negative social or environmental consequences of their purchases. This lack of knowledge results in lack of felt moral responsibility by buyers. Secondly, because buyers are not **directly** responsible for decisions made in most of the links in the product chain, they may feel that they are free of moral responsibility for any negative social or environmental consequences of decisions involving earlier links in this chain. Because economic globalisation extends the geographical sourcing of products and tends to increase the remoteness of their sourcing (or that of their components) from buyers, this can add further to a reduction in the felt moral responsibility for the social and environmental consequence of their choices (See for example, Aurifeille et al., 2009). For example, how strongly do European buyers of margarine feel about the environmental consequences of their purchases of margarine (or biodiesel) derived from palm oil? Such purchases are indirectly resulting in the loss of rainforests in Indonesia and Malaysia with significant biodiversity loss, They are threatening the survival of species such as the orangutan, and may actually be adding to greenhouse gas accumulation in the atmosphere (Swarna Nantha and Tisdell, 2009).

Modern economic systems are, of course, not entirely market-based, but to varying degrees contain hierarchical components. This applies, in particular, to larger sized businesses, many of which are corporations, and an increasing number of these businesses are engaged in multinational activities. In such bodies, important decisions are often made by committees. This diminishes individual responsibility for decisions that have adverse social consequences, or which cause significant environmental deterioration. Secondly, when a company is engaged in international economic activity, its central managers may feel little social responsibility for adverse consequences of the company's activities in remote locations. This may be partly because they only have limited knowledge about these consequences because of the regional delegation of management, and the old adage 'out of sight, out of mind' could apply.

Economic competition is another factor likely to result in failure of businesses to mitigate environmental spillovers from their activities unless governments intervene by adopting policies which make it more profitable for businesses to take account of these spillovers rather than neglect them. Even if businessmen do feel social responsibility for their adverse environmental spillovers, market capitalism may prevent them from making allowance for

these. In many circumstances, the survival of firms depends on their ability to maximize profit or to come with striking distance of doing so. This can be a consequence of intense competition in product (or more generally commodity) markets or in capital (financial) markets. The former possibility is well recognized but the latter possibility is less well known. Marris (1964) argued that under corporate capitalism, public companies are limited in their ability to deviate from profit maximization and survive under their existing management because those that fail to maximize profit risk being taken over by financial raiders. Therefore, strong competitive pressures exist in modern market systems which deter businesses from taking into account the adverse environmental externalities which they generate. Consequently, as this system spreads globally, these negative consequences become more prevalent.

In the absence of government regulation of activities causing negative externalities, business may feel no compulsion to limit these externalities or they be unable to do so because of competitive pressures. They may adopt the view that it is incumbent on governments to adopt policies and laws to regulate negative environmental spillovers. In the absence of the requisite laws, business may believe that they are justified in generating adverse externalities because they do not break the law. Hence, their behaviour is increasingly governed by the law, rather than by their social conscience. However, as is well known, laws are not always enforced and corruption occurs in most countries with different degrees of prevalence. If corruption is a part of a local culture, businesses operating in these localities may find that the only way that they can succeed is by adopting local practices and they may not consider it ethically wrong to act corruptly in these circumstances. Therefore, the law becomes ineffective in regulating adverse externalities in such cases.

Is it likely that shareholders will deter public companies from engaging in negative environmental behaviour if this behaviour adds to the profitability of companies? There are several reasons for believing that this is unlikely. First, given the separation of management and ownership of public corporations, shareholders have little direct influence on the decisions of company managers. Secondly, the number of ethical investors in publicly listed companies is probably small so their influence is limited. Thirdly, investors who have ethical concerns may argue that other investors will be guided in investing by the returns on their investment rather than ethical considerations and therefore, whether or not they purchase shares in a particular company, will hardly influence the behaviour of its managers. Fourthly, since each shareholder is usually one of many investors in a public company and each has no direct influence on managerial decisions within it, all shareholders may feel justified in absolving themselves of any moral responsibility for the company's actions. The fact also that a company is an independent legal activity may further weaken the sense of moral responsibility felt by its individual investors for its actions. Therefore, the global proliferation of public companies and the global spread of their activities (which is facilitated by the process of economic globalisation) increase the dependence of societies on good legal governance to ensure acceptable social outcomes from economic activities. Table 1 provides a summary of the type of influences in modern market systems that weaken felt moral responsibility of economic actors for the negative social and environmental consequences of their economic actions. These factors need to be addressed by extending and improving legal governance. Growing economic globalisation adds to the need for this.

**Table 1: Some factors (increased in significance by globalisation) contributing in modern market economies to a reduction of felt moral responsibility of individuals for the adverse social and environmental consequences of their economic actions. These need to be addressed by greater and more effective legal governance.**

	<b>Contributing Factor and Comment</b>
<b>1.</b>	<b>Buyers of commodities</b> have become more ignorant of the remoter social and environmental consequences of their decisions as supply chains have lengthened and become geographically more dispersed with greater globalisation. This greater ignorance reduces felt moral responsibility of buyers for their choices and remoteness of consequences may reinforce this.
<b>2.</b>	<b>On the supply-side, business decisions are increasingly made by committees because the size of many businesses have increased.</b> Individual members of committees may not feel personally responsible for decisions by committees. This can weaken the exercise of ethical responsibility.
<b>3.</b>	<b>Informational constraints in larger businesses</b> (e.g. multinationals) operating in dispersed areas may reduces the knowledge of top management of adverse social and environmental consequences of the actions of the business in remote locations. This can result in failure by the business to address such issues.
<b>4.</b>	<b>Economic competition (in the absence of relevant government regulation) weakens the ability of businesses to allow for the adverse social and environmental consequences of their actions.</b> This can occur as a result of market competition in commodity markets and particularly in the case of public companies, competition in financial markets is relevant. These factors limit the scope which businesses have from deviating from profit-maximizing behaviour.
<b>5.</b>	<b>Shareholders (investors) in public companies place little weight on the social and environmental consequences of the behaviour of these companies unless these behaviours reduce the returns on their investment.</b> Investors are attracted to invest in companies that maximize the returns on their investment for reasons outlined in the text. Furthermore, because of the separation of ownership and management in public companies, investors feel little personal ethical concern about the negative social and environmental consequences of public companies in which they invested.
<b>6.</b>	<b>Increased geographical nobility of individuals and resources</b> reduces incentives to conserve local natural resources and environments for reasons explained in the text.

In addition, it ought to be noted that increased geographical mobility of individuals and the geographical widening of their investment possibilities can result in individuals being less concerned about sustaining environments and natural resources in their locality. This is because they have the opportunity of shifting themselves or changing their investment to another locality if their local environment deteriorates or natural resources become scarcer in their locality. However, if everyone everywhere acts on this premise, all environments are likely to deteriorate. One of the features of increased economic globalisation is that it permits greater international mobility of resources, although liberalization of international labour movements still remains restricted.

*1.1 Can economic globalisation by stimulating economic growth actually lead to environmental improvement in the absence of greater government regulation of economic activity?*

It has been argued that if sufficient economic growth occurs, it can actually be environmentally beneficial because when incomes are higher, individuals are more concerned about pollution and environmental pollution and it has been observed that the level of emissions of many pollutants continually declines in relation to the level of gross output. For example, CO<sub>2</sub> emissions in relation to GDP appear to increase as first with economic growth but once a sufficiently high level of GDP is achieved, they decline. The relationship is of a reversed-U shape and the curve involved has been christened the environmental Kuznets curve.

It is widely believed that increasing economic globalisation stimulates economic growth and that given the above mentioned considerations, it will contribute eventually to environmental improvement. However, there is little evidence that continuing economic growth is likely to be sufficient to mitigate many of the important environmental problems associated with economic growth. Tisdell (2001) gives a number of reasons why this is so. For example, even if the intensity of pollution emissions decline as gross production increases, the aggregate level of pollution emissions can continue to rise. Furthermore, if the aggregate level emissions start to decline, the flow of these emissions can continue to exceed the capacity of the environment to absorb or neutralize these (Tisdell, 2009a, Ch. 7). In the case of greenhouse gases, for example, they can still continue to accumulate in the atmosphere and consequently, even deeper emissions cuts will be required in the future to lower the accumulation of these gases in the atmosphere.

In addition, some environmental damages caused in periods of economic growth are irreversible, for example, biodiversity loss.

Therefore, the environmental damages caused by higher economic growth (as a result of greater economic globalisation) seem to call for greater environmental regulation rather than less. Some advocates of the environmental Kuznets curve use it as an argument for reduced environmental regulation. This increased governance is also likely to require greater cooperation between nations in regulating environmental use in their individual countries. This is particularly evident in relation to measures to limit the emissions of greenhouse gases.

## 1. Important Global and Transboundary Environmental Problems Identified

Many global and transboundary problems are emerging and increasing in intensity. This section outlines several of these problems but their governance is not analyzed at this stage but is considered later. The most prominent of these problems at present is global warming caused primarily by greenhouse gas emissions from economic activity and the accumulation of these gases in the atmosphere. According to scientific evidence, this is a major contributor to climate change and is expected to result (or is already resulting in) rising temperatures and sea-levels. Consequently, natural environments in all parts of the world are predicted to alter (mostly in a negative way from a human perspective) as a result of this phenomenon. Furthermore, greenhouse gas emissions in every part of the world contribute to this problem. Therefore, in order to control the problem, cooperation and coordination of all (or at most) nations are needed to collectively limit their greenhouse gas emissions.

The basic problem was recognized in the United Nations Framework Convention on Climate Change (UNFCCC) which came into force in 1992. However, progress in controlling the accumulation of greenhouse gas in the atmosphere has been slow. Attempts to do this through the Kyoto Protocol have proven to be largely ineffective. There were several reasons for this:

- (1) Some major emitters of greenhouse gases (such as the USA and developing countries, such as China and India) were not parties to the Protocol.
- (1) The emission targets of many of the parties to the Protocol were not met.
- (1) As discussed later, there was only partial accounting of the greenhouse gas imprint of most countries participating in the Kyoto Protocol. Whether or not a more effective form of global governance of greenhouse gas accumulations will be agreed to at Copenhagen when national representatives discuss a replacement for the Kyoto Protocol, and whether it will subsequently be implemented fully, remains to be seen.

Another matter of concern because its effects are geographically widespread has been the release of ozone depleting substances. These cause a reduction in the ozone layer in the atmosphere. This layer reduces ultraviolet radiation in southern and northern portions of the globe. A reduction in this layer has several adverse environmental effects. These include an increase in skin cancer, reductions in plant growth and accelerated deterioration of paints. As a result of the Montreal Protocol, there has been a reduction in the emission of several ozone-depleting substances but not all (Tisdell, 2009a, Ch. 11).

There are also other environmental problems that call for cooperative international agreement and governance. These include:

- (1) **International transmission of acid rains**  
For example, gases implicated in the occurrence of acid rains drift from China to Korea and Japan, from the UK to Scandinavian countries, and from the United States to Canada.
- (2) **International smoke haze and drift of particulate matter.**

Forest fires in Indonesia (often deliberately lit) periodically result in smoke haze in other parts of Southeast Asia, for example, Singapore.

(3) **Depletion of shared water resources.**

In many parts of the world, water resources are shared by several nations. The Nile Basin for example involves many countries, as does the Mekong River Basin. Greater off-take of water upstream can reduce the amount of water available to nations downstream and have adverse environmental consequences. When the international shared water resources drain into an inland basin (such as that occupied by the Aral Sea in Central Asia), reduced discharge of water into it can have serious ecological consequences.

(4) **Pollution of internationally shared water resources**

When several nations share a water body, the individual nations involved may fail to take account of the adverse impacts on other nations of their release of water pollutants into the shared water body.

(5) **Inefficient utilization or conservation of shared and internationally mobile biological resources, for example, fish.**

Many wild species travel across national borders (often as a part of their life-cycles) and therefore, are effectively shared resources. If the harvesting or conservation of these is not effectively co-ordinated, the collective outcome can be socially sub-optimal. For example, unrestrained harvest of a fish species early in its life-cycle (or in the early part of its migratory path) by the nation in which it initially appears usually reduces the catch available to other nations through which the migrating species subsequently passes and lowers the maximum sustainable economic catch of the species. International fishing agreements (such as those relating to different types of tuna stocks) attempt to address this issue. However, such agreements are frequently imperfect in their operation.

(7) **Unsatisfactory utilization of marine resources present outside of territorial waters.**

In the absence of international agreements covering the use of particular natural resources occurring outside of territorial waters, these are open-access resources. Although the United Nations International Convention on the Law of the Sea (UNCLOS) extended the exclusive economic marine zone of nations, some ocean areas are still not territorial waters. This creates particular environmental problems for the optimal use of their resources. These resources are open-access resources and therefore, subject to excessive economic exploitation. Note also the UNCLOS did not solve the mobile marine resource problem mentioned in point (6) above.

(8) **International biodiversity loss**

Two international conventions are in force that attempt to control global biodiversity loss. These are the Convention on International Trade in Endangered Species (CITES) and the more recent Convention on Biological Diversity (CBD). The former bans or restricts international trade in species which are declared to be endangered. The latter, amongst other things, attempts to strengthen national property rights in genetic resources that exist within a country's borders. These conventions aim to overcome biodiversity loss by adopting different economic approaches, neither of which is completely effective (see for example, Tisdell, 2009b).

(9) **Dangers posed by the International transfer and escape of genetically modified organisms**

Several international environmental problems can arise from the release of genetically modified organisms. The Cartagena Protocol is intended to address several of these problems. It focuses, however, only on the international transfer of genetically modified organisms by deliberate human actions and does not address all the international issues involved in the release of engineered organisms, for example, the accidental movement of such organisms internationally.

These are only a sample of global and international environmental issues calling for effective governance. The extent and the importance of these issues have magnified with continuing economic growth and the accompanying extension of the process of economic globalisation.

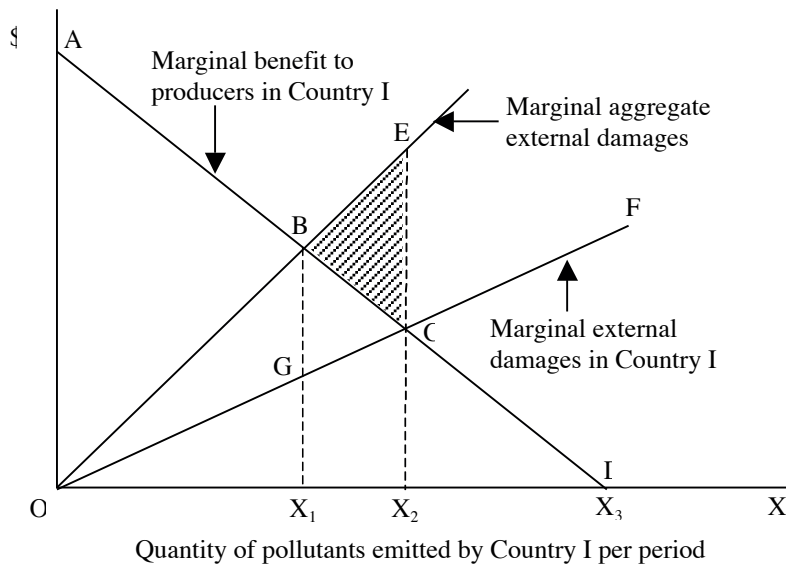
## **1. Failures in the Governance of Global and International Environmental Problems**

### *1.1 Inadequacies of environmental governance by market systems.*

Market systems provide one means of governance of resource use. But often markets are missing (as in the case of pure public goods) or incomplete, as in the case of economic activity that gives rise to environmental spillovers. In such cases, market systems have shortcomings that in some cases can be rectified, or partially rectified, by government intervention in their operation. For example, pollution taxes or charges, or systems involving tradable permits for pollution emissions (cap-and-trade systems) may be introduced by governments to address the environmental shortcomings of market systems.

However, if the government of a country decides to regulate an environmental externality that adversely affects its citizens as well as those of nearby countries, it has little or no economic incentive to do this in a manner that would be economically optimal from a collective international point of view. The country can be expected to ignore its negative environmental impacts on other nations unless the other countries adversely affected by such externalities compensate it for the economic benefit it forgoes as a result of its greater environmental regulation.

Figure 1 illustrates this case. Economic production in Country I is assumed to generate X amount of pollution emissions. The marginal benefits to producers in Country I of being able to emit these pollutants is shown by the line AD. However, the citizens of Country I suffer marginal external damages as a result of these emissions as depicted by line OF. In addition, there is also an external environmental spillover on a second country, Country II, and the marginal external costs to Country II of this spillover is equivalent to the difference between line OF and OE. Therefore, the marginal aggregate (global) damages from pollution in Country I are as shown by the line OE. Reciprocal externalities (between these countries) are supposed to be absent.



**Figure 1: An illustration of a case in which a country has no economic incentive to regulate its pollution emissions in a way which takes into account these negative impacts on other countries.**

In the absence of intervention by the government of Country I, producers in that country will emit  $X_3$  of pollutants per period assuming that a market system exists and that producers are profit-maximizers. This is not collectively ideal from an economics point of view because a potential Paretian improvement can be achieved in Country I by reducing the quantity of pollution emissions from  $X_3$  to  $X_2$  and its government may adopt regulations which bring this about. However, this action is not yet collectively ideal from an international point of view. Although it increases economic welfare in Country II, there is scope to further increase the collective economic welfare of the two nations involved.

A further reduction in the level of pollution emissions by Country I from  $X_2$  to  $X_1$  per period can raise the aggregate economic benefits of the concerned countries by an amount equivalent to the area of triangle BCE. However, Country I has no economic incentive to take this action unless it is compensated for its reduced economic benefits (extra economic costs) by Country II. The extra economic cost to Country I of this action is the loss of economic benefits equivalent to the area of triangle BGC and the gains to Country II are equivalent to the area of the quadrilateral BGCE. Hence, a net collective economic gain of an amount equivalent to the area of triangle BCE can be achieved but Country I has no incentive to bring this about unless Country II compensates it in some way for the economic benefit it forgoes. Potentially, both countries can gain because there is scope for Country II to more than compensate Country I for its extra cost of environmental regulation and still be better off than beforehand. In other words, scope exists for a global potential Paretian improvement.

Nonetheless, the above possibility does not ensure that an optimal solution for the governance of international environmental spillovers will be found. Bargaining problems and political considerations, as well as strong feelings about how just a possible solution is, can stand in the way of the resolution of such problems. Consequently, as economic growth and



globalisation proceeds such issues can be expected to become more serious. This is because growing market failure is compounded by international political failures. Furthermore, the type of institutional failures (identified in Section 2.1) add to these environmental problems as market structures of the existing Western type become more widespread.

### *1.1 Political inadequacies in the governance of global environmental problems*

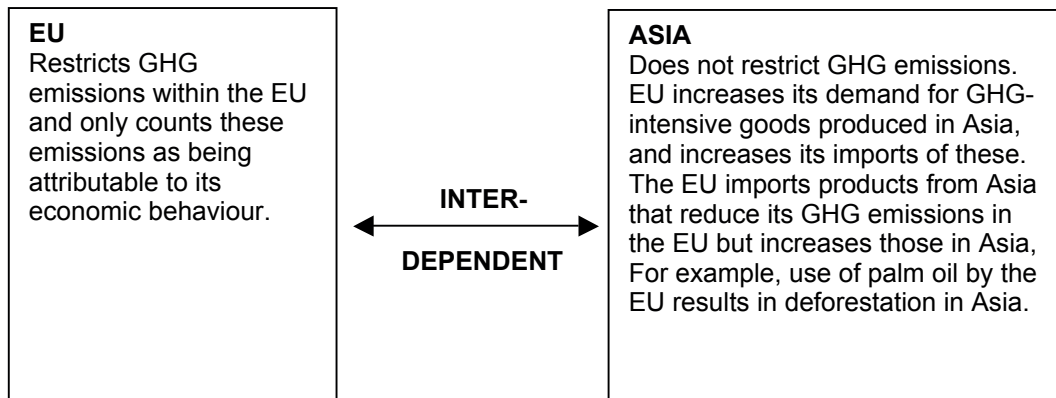
Global environmental governance is quite weak and has developed at a far slower pace than the rate of magnification of global environmental problems due to growing economic globalisation and continuing long-term economic growth. Here it is only possible to provide some short sketches of factors that result in political inadequacies in the governance of global environmental problems. Achieving awareness is the first step in searching for solutions to these shortcomings. Nevertheless, this does not mean that solutions can always be found.

Even when a potential Paretian improvement (that is, a solution that can potentially make all parties better off) from improved international governance is possible, the following political impediments can stand in the way of such a solution:

- (1) **Reactive political behaviour.** Very often political action is not taken until serious environmental problems become obvious. Because of such delays (slow reactive behaviours) serious **irreversible** environmental damage may occur. Inadequate precaution may be taken (see Tisdell, forthcoming).
- (1) **Bargaining problems.** Even in cases where environmental regulation is advantageous to all countries (or a large number), **bargaining** about how the international costs of such regulation should be shared by nations can result in lack of agreement or suboptimal governance. In other words, distributional disputes restrict possibilities for international environmental governance. This is currently a problem in relation to the containment of greenhouse gas emissions.
- (1) **A prisoners' dilemma problem** may occur. All nations may have a collective desire to impose environmental restrictions, but each nation individually has an incentive not to enforce these restrictions. As a result, all nations suffer. For example, Annex I (developed) nations who were parties to the Kyoto Protocol failed to meet their commitments to reduce their greenhouse emissions to agreed levels, and their collective goal was not achieved.
- (1) **Lack of global enforcement mechanisms.** In the absence of adequate sanctions on countries that fail to observe their international agreements, there is a high risk that some nations will not honour their international obligations. This is a particularly serious matter when an international environmental problem is akin to a prisoners' dilemma.
- (1) **Monitoring limitations.** The enforcement problem is exacerbated by difficulties that can arise in trying to monitor national compliance with international environmental agreements. Most countries guard their sovereignty and may deny foreigners access for monitoring their environmental activities.

- (1) **Imprecise specification of environmental objectives.** Frequently, the purpose or objective stated in international environmental agreements is imprecise. This allows flexibility in their interpretation. This can be advantageous but on the other hand, it can provide an avenue for avoiding responsibilities and lead to confusion. The precautionary principle, as stated in several international environmental agreements, suffers from this problem (see Tisdell, forthcoming).
  
- (1) **Partial solutions to global environmental problems.** The Kyoto Protocol, for example focused mainly on greenhouse gas emissions generated within Annex I countries while at the same time ignoring additions to greenhouse gas emissions caused elsewhere by these countries. Greater greenhouse gas emissions in less developed countries supplying imports to more developed countries were ignored for the most part. For instance, Europe increased its use of biofuel, some of which was manufactured from palm oil exported from Southeast Asia. The expansion of palm oil production in Southeast Asia has added to tropical deforestation there and reduced carbon sequestration by these forests thereby contributing to the accumulation of greenhouse gases in the atmosphere and biodiversity loss (see for example, Hunt, 2009). Furthermore, while the import of greenhouse-intensive products from China and India by developed countries (rather than their production in developed nations) reduces the greenhouse gas emissions emanating from developed nations, it does not reduce global greenhouse gas emissions. In fact, developed countries importing these products should be held morally responsible for the associated greenhouse gas emissions in developing countries.
  
- (1) **The need to pander to the wishes of special interest groups.** In most countries, special interest economic groups are powerful lobbyists and may undermine potential international environmental agreements which would be in the collective global interest. For example, many large companies in Australia have lobbied successfully for special consideration (for instance, aluminium producers) in relation to the Australian Governments proposed cap-and-trade reforms to regulate greenhouse gas emissions on the basis that they will be forced to move their activities offshore (in the absence of such concessions) to nations that have no controls or less restrictive controls on those emissions, for example, China or India.

It could be argued that the situation described under point (7) above is a case of incomplete global environmental (or green) accounting because it fails to take into account foreign emissions of greenhouse gases which can be attributed to the economic decisions of another country or region. For example, suppose that the EU has restrictions on greenhouse gas emissions but these regulations are either absent in Asia, or minimal. As a result, the production of greenhouse gas-intensive products can be expected to alter their geographic location from the EU to Asia. The EU may well import many of these products from Asia rather than produce them itself. There is geographical displacement of the EU's emission of greenhouse gases to Asia. However, the emissions which the EU indirectly generates in Asia are not attributed to the EU. Similarly, if the EU imports palm oil from Southeast Asia and this is produced by clearing forests in Southeast Asia, its negative environmental effect (for example, by raising greenhouse gas accumulation) is not attributed to the EU, even though demand from the EU is the driving force in such forest clearing. Figure 2 provides a sketch of this phenomenon.



**Figure 2: An illustration of flaws in the partial approach to regulating greenhouse gas emissions and global warming. In this case, reduced GHG (greenhouse gas) emissions in the EU result in an increase in GHG emissions in Asia due to economic choices by those in the EU. Therefore, the EU's restrictions on GHG emissions are, to a considerable extent, globally ineffective. Should the EU be held morally responsible for the extra GHG emissions that its economic choices cause in Asia?**

Another possible political problem in developing effective global governance is that the period in office of elected politicians is relatively short and even those politicians who are not elected have a limited life-span. This may persuade them to concentrate on short-term visible (material) progress to help ensure their re-election or to leave behind a concrete legacy in their lifetime. From this angle, the adoption of long-term programmes to prevent environmental deterioration is **unlikely** to have a high priority for them. Politicians tend to adopt short-term horizons in their decision-making.

## 1. Concluding Comments

It has been argued that economic globalisation by spreading the economic market system (of the type which has evolved in the West) tends to reduce the felt moral responsibility of individuals for the adverse environmental and social consequences (some of which are remote) of their economic actions. Furthermore, it stimulates economic growth which occurs in a manner that adds to environmental deterioration in important ways. While some environmental conditions can improve as a result of economic growth, others deteriorate and can eventually threaten the sustainability of economic activity, for example, greenhouse gas accumulation in the atmosphere. The weakening of felt moral responsibility is mainly a consequence of the institutional structure of market systems that have evolved in the West. Furthermore, the desire of individuals for economic growth remains strong because of personal desires for greater income and wealth accumulation. In addition to this desire, the structure of modern economies is such that they must continue to grow in order to maintain full employment (Tisdell, 1999, Ch. 6). The **immediate** economic welfare of all is locked into an economic system that needs to continually grow in order to satisfy most citizens. The system continues on its growth path even though the long-term environmental consequences of this could be disastrous.

The above factors magnify in significance as economic globalisation proceeds and hence, the need for improved environmental governance of Western-evolved market systems and the nature of economic growth grows. However, because governance is primarily the responsibility, in the modern era, of individual nations, global governance is failing to develop in a manner needed to address these issues adequately. It is not yet clear how the global community can overcome this impasse. In this regard, the governing structure provided by the United Nations has been helpful but since its membership is based on national representation, it is still far from effective in providing mechanisms for desirable forms of global and international governance.

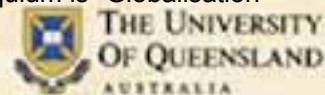
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# Environmental Governance, Globalisation and Economic Performance\*

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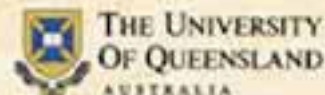
\*A presentation for the 4<sup>th</sup> International Colloquium of the Franco-Australian Centre for International Research on Management Science (FACIREM) held in Barcelona, 10-12 November 2009 under the auspices of the Spanish Royal Academy of Economic Science and Management. The theme of the colloquium is 'Globalisation and Governance'.



1

## Coverage

1. Introduction.
2. Consequences of the Global Economic System and Increased Globalisation for the State of the Environment.
  - The tendency of modern (Western developed) economic systems to reduce the felt moral responsibility of individuals for environmental damage caused by economic activity.
  - Can economic globalisation by stimulating economic growth lead to environmental improvement in the absence of greater government regulation?



2

## Coverage (cont.)

3. Important Global and Transboundary Environmental Problems Identified.
4. Failures in the Governance of Global and International Environmental Problems
  - Inadequacies of environmental governance by markets.
  - Political inadequacies in the governance of global environmental problems.
5. Concluding Comments

3



## Introduction

It is argued in this paper that:

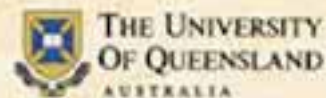
- Economic globalisation stimulates economic growth which given present systems of governance, results in negative global environmental consequences.
- An important reason is that Western developed market systems weaken the felt moral responsibility of individuals for the environmental and social consequences of their actions.
- Political systems based on the pursuit of national interests are ill-equipped to regulate negative global environmental impacts of economic growth.

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## Reasons why extension of the market system reduces moral responsibility felt by individuals for the consequences of their economic actions

1. **Buyers of commodities** have become more ignorant of the remoter social and environmental consequences of their decisions as supply chains have lengthened and become geographically more dispersed with greater globalisation. This greater ignorance reduces felt moral responsibility of buyers for their choices and remoteness of consequences may reinforce this.
2. **On the supply-side, business decisions are increasingly made by committees because the size of many businesses has increased.** Individual members of committees may not feel personally responsible for decisions by committees. This can weaken the exercise of ethical responsibility.

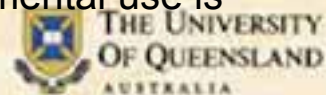


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## Consequences of the Global Economic System and Increased Globalisation for the Environment

Two aspects are explored:

- Factors are identified that contribute in modern market economies, to a reduction of the moral responsibility felt by individuals for the social and environmental consequences of their economic actions. These indicate the need for more effective legal governance of economic choices as globalisation grows.
- The hypothesis based on the environmental Kuznets curve is rejected. It indicates that with sufficient economic growth (such as might be achieved by globalisation), environmental problems will diminish in importance, and ever decreasing governance of environmental use is needed.

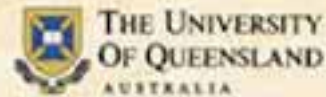


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## Reasons why extension of the market system reduces moral responsibility felt by individuals for the consequences of their economic actions (Cont.)

- 3. Informational constraints in larger businesses** (e.g. multinationals) operating in dispersed areas may reduce the knowledge of top management of adverse social and environmental consequences of the actions of the business in remote locations. This can result in failure by the business to address such issues.
- 4. Economic competition (in the absence of relevant government regulation) weakens the ability of businesses to allow for the adverse social and environmental consequences of their actions.** This can occur as a result of market competition in commodity markets and particularly in the case of public companies, competition in financial markets is relevant. These factors limit the scope which businesses have from deviating from profit-maximizing behaviour.

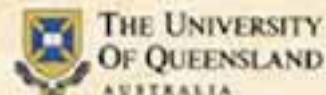
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## Reasons why extension of the market system reduces moral responsibility felt by individuals for the consequences of their economic actions (Cont.)

- 5. Shareholders (investors) in public companies place little weight on the social and environmental consequences of the behaviour of these companies unless these behaviours reduce the returns on their investment.** Investors are attracted to invest in companies that maximize the returns on their investment for reasons outlined in the text. Furthermore, because of the separation of ownership and management in public companies, investors feel little personal ethical concern about the negative social and environmental consequences of public companies in which they invested.
- 6. Increased geographical mobility of individuals and resources** reduces incentives to conserve local natural resources and environments for reasons explained in the text.

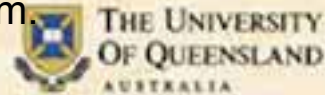
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## Flaws in the Argument that the Environmental Kuznets Curve Justifies a Laissez-Faire Approach to Environmental Governance

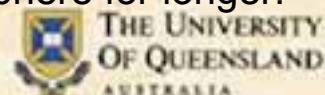
- Not all pollution emissions eventually fall in intensity as production increases.
- Even when **intensities** do fall, the total level of pollution emissions can continue to rise.
- Furthermore, they may still exceed environmental absorption capacities and so pollutants continue to accumulate in the environment, greenhouse gases, for example.
- Irreversible environmental disaster may strike once pollution levels or environmental deterioration exceeds some threshold. Globally this could occur before pollution intensities reach their maximum.



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## Identification of some Important Global and Transboundary Environmental Problems

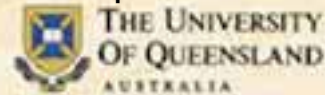
- **Greenhouse Gas Accumulation in the Atmosphere.** This is a problem of global concern requiring improved global governance.
- To date, measures to curb greenhouse gas emissions have proven to be largely ineffective globally, for reasons outlined in the text.
- **Ozone-Layer Depleting Substances.** As a result of the Montreal Protocol, success has been achieved in reducing CFC emissions but some of their substitutes are also ozone depleting. They deplete the ozone layer at a slower rate but persist in the atmosphere for longer.



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## Some other Important Transboundary Problems Include

- International **transmission of acid rain.**
- International **smoke haze and drift of particulate matter.**
- **Depletion of shared water resources.**
- **Pollution of internationally shared water resources.**
- **Inefficient utilization or conservation of shared and internationally mobile biological resources**, e.g. fish.
- **Unsatisfactory utilisation of marine resources present outside territorial waters.**
- International **biodiversity loss.**
- Dangers posed by international transfer or escape of **genetically modified organisms.**

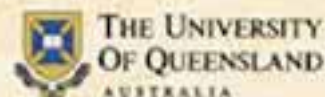


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## Failure in the Governance of Global and International Environmental Problems

Two matters are given attention:

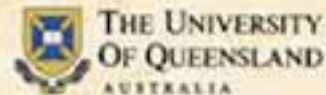
- Inadequacies of environmental governance by market systems. The focus here is on environmental externalities a portion of which has international spillovers. It is shown that national governments lack incentives to address adequately international spillovers from a country's economic activity.
- Reasons why there are political shortcomings in the governance of global environmental problems are identified.



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## **Inadequacies of Environmental Governance by Market Systems – More Analysis of Environmental Externalities**

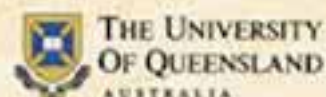
- The market system may fail (on a global scale) to regulate environmental problems adequately. For reasons discussed under the heading of felt moral responsibility for the environmental impacts of individual choices.
- Here more attention is given to environmental spillovers from economic activity; an example of incomplete or missing markets.
- While governments have an incentive to regulate environmental externalities affecting their own citizens, they may have little or no incentive to take account of their environmental spillovers on other nations.



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## **Inadequacies of Environmental Governance by Market Systems – More Analysis of Environmental Externalities (Cont.)**

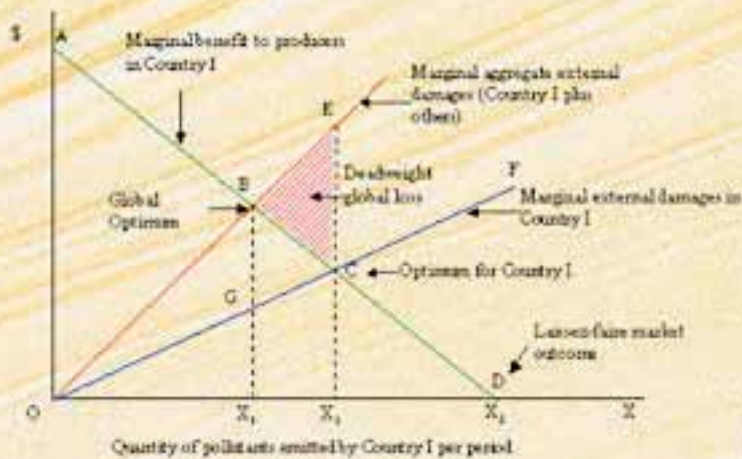
- The felt responsibility of a national government usually only extends to the welfare of its own citizens.
- Figure 1 is used to illustrate the failure of markets and of national governments to govern adequately environmental spillovers that have (non-reciprocal) international impacts.



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- The laissez-faire approach results in outcome D, pursuance of national self-interest by Country I results in outcome C whereas a global economic optimum corresponds to B. A deadweight global loss can be expected

Figure 1: An illustration of a case in which a country has no economic incentive to regulate its pollution emissions in a way which takes into account these negative impacts on other countries



## Political Inadequacies in the Governance of Global Environmental Problems

Even when all countries (or a subset) could benefit from improved environmental governance, such governance may not materialize because of political shortcomings. Reasons include the following:

1. **Reactive political behaviour.** Political behaviour is rarely anticipatory.
2. **Bargaining problems.** Although all nations may benefit from mutual governance of environmental problems, disputes about how to share the gain may thwart agreement.
3. **A prisoners' dilemma problem.** The global structure of some environmental problems is such that even though all nations would gain by improved governance, the selfish interest of each is not to honour a collective agreement.
4. **Lack of global enforcement** mechanisms makes this problem worse.
5. **Monitoring limitations.** Most countries guard their sovereignty and may deny foreigners access for monitoring their environmental activities.

## Political Inadequacies in the Governance of Global Environmental Problems (Cont.)

6. **Imprecise specification of environmental objectives.** Many international environmental agreements are couched in imprecise or vague forms. This makes agreement easy but breaches of the agreement are unclear because of the latitude for interpretation of agreements.
7. **Partial solutions to global environmental problems.** Regulating environmental problems in some countries but not in others can result in their movement offshore. This may result in little global benefit. For example, the regulations of CO<sub>2</sub> emissions by the EU may have stimulated the growth of greenhouse gas emissions in Asia as the EU began to source greenhouse intensive products from there.
8. **The need to pander to the wishes of special interest groups.** In most democratic countries, special economic interest groups can lobby in ways that undermine potential international environmental agreements.

Given the above, one should ask to what extent should individual nations be held responsible for their important decisions which generate adverse (global) effects in other countries? The following diagram illustrates the problem.

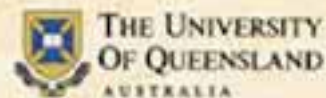


Figure 2: An illustration of flaws in the partial approach to regulating greenhouse gas emissions and global warming. In this case, reduced GHG (greenhouse gas) emissions in the EU result in an increase in GHG emissions in Asia due to economic choices by those in the EU. Therefore, the EU's restrictions on GHG emissions are, to a considerable extent, globally ineffective. Should the EU be held morally responsible for the extra GHG emissions that its economic choices cause in Asia?

## Political Inadequacies in the Governance of Global Environmental Problems (Cont.)

- Another example, of the type of problem illustrated in Figure 2 is deforestation in the Amazon. This is largely a result of demand by nations (other than Brazil) for soybeans, corn and other crops produced by clearing the rainforest in the Amazon in Brazil.
- These products are imported not only by higher income countries but also by several developing countries, such as China. It can be noted that with China's economic growth, its global environmental footprint has become heavier and will become even heavier as it experiences continuing economic growth.

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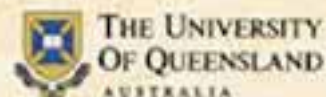
## Concluding Comments

It is very difficult to obtain satisfactory governance of environmental problems, especially on a global scale. This is because of chronic failures in market and political systems.

Problems include:

- Reduced felt moral responsibility for environmental consequences of individual choices as markets are extended.
- Politicians seek policies that give short-term visible results and therefore tend to neglect environmental policies.
- Modern economic systems 'need' continuing economic growth to sustain employment and environmental policies that may retard economic growth are avoided.
- Suitable political mechanisms for global governance have yet to evolve. Current systems are based on national identities and the pursuit of national interest. For example, the United Nations is a forum based on the representation of nations.

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# ***LOS RETOS DE LA GLOBALIZACIÓN Y GOBERNANZA EN TIEMPOS COMPLEJOS***

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Las tradicionales formas de inserción institucional fundamentadas en el Estado-Nación han sido transformadas desde la perspectiva política, pero también económica. Emerge de esta forma una nueva geografía económica mundial con nuevos enfoques con cadenas de valor agregado articuladas a escala global que tiene sus propias reglas. Surge un nuevo concepto, la gobernanza, que se aplica para definir un modelo de gestión de los asuntos públicos basado en la participación de la sociedad civil en todos sus niveles, promoviendo un equilibrio entre el Estado, la sociedad civil y el mercado de la economía.

Uno de los retos globales más importantes es la elaboración de una nueva gobernanza mundial que permita mejorar la organización colectiva de la gestión del planeta, dar garantía a la sostenibilidad medio ambiental y a la sostenibilidad de un sistema de protección social, así como, conseguir reducir considerablemente la pobreza en el mundo.

No parece lógico que unos 50 de los más de 200 Estados del planeta no sean capaces de gobernarse. El gran reto de la globalización es lograr que ésta sea lo más beneficiosa para la humanidad.

## **THE CHALLENGE OF GLOBALIZATION AND GOVERNANCE IN COMPLEX TIMES**

The traditional methods of institutional insertion grounded in the State-Nation have been transformed not only from a political perspective but also from an economic one. A new world economic geography is emerging with its new approaches, with added value chains articulated worldwide with its own regulations. A new concept, governance, is emerging to define a management model of public affairs based on the participation of the civil society at every level, thus promoting a balance between the State, the civil society and the economy market.

One of the most important global challenges is the development of a new world governance which will enable improve the collective organization of world management, guarantee both environmental and social protection sustainability, as well as achieve a considerable reduction of world poverty.

It seems illogical that some 50 out of 200 states in the planet cannot govern themselves. The great challenge of globalization is to be most beneficial to mankind.

# LOS RETOS DE LA GLOBALIZACIÓN Y GOBERNANZA EN TIEMPOS COMPLEJOS

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## DEFINICIÓN DE GLOBALIZACIÓN



Se conoce por **globalización** el fenómeno de apertura de las economías y las fronteras, como resultado del incremento de los intercambios comerciales, los movimientos de capitales, la circulación de las personas y las ideas, la difusión de la información, los conocimientos y las técnicas, y de un proceso de desregulación. Este proceso, tanto geográfico como sectorial, no es reciente, pero se ha acelerado en los últimos años. La globalización es fuente de múltiples oportunidades, aunque sigue siendo uno de los mayores retos a los que debe enfrentarse el mundo actual.

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## GLOBALIZACIÓN

Globalización: ¿una realidad, un espejismo?

La superación de barreras nacionales:

- mercados
- comunicaciones
- titularidad de las empresas
- el inglés como lengua franca
- Internet

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## GOBERNANZA

- Aunque empleada desde antiguo para referirse a cierta idea de gobierno, a partir de los años 1990 la **gobernanza** se empieza a aplicar para definir un nuevo modo de gestión de los asuntos públicos, basado en la participación de la sociedad civil en todos sus niveles local, regional, nacional e internacional bajo los principios de la eficacia, la calidad y la buena orientación de la intervención.
- Al mismo tiempo, este concepto responde a una frontera entre lo público y lo privado cada vez más difuminada que provoca múltiples posibilidades de negociación e intercambio.

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## DEFINICIÓN DE GOBERNANZA

**Definición de Gobernanza realizada en 1995 por la Comisión sobre Gobernanza Global** *"Es la suma de las múltiples maneras como los individuos y las instituciones, públicas y privadas, manejan sus asuntos comunes. Es un proceso continuo mediante el que pueden acomodarse intereses diversos y conflictivos y adoptarse alguna acción cooperativa. Incluye las instituciones formales y los regímenes con poder para imponer obediencia, así como arreglos informales que las personas y las instituciones han acordado"*

La **Comisión Europea en su Libro Blanco** sobre la **Gobernanza Europea** (2001) también proporciona una definición: *"Reglas, procesos y conductas que afectan el modo como se ejerce el poder a nivel europeo, particularmente en lo que se refiere a la apertura, la participación, la responsabilidad, la efectividad y la coherencia"*.

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## GOBERNANZA

**Gobernanza:** es el proceso de toma de decisiones y el proceso por el que las decisiones son implementadas o no.

**Buen gobierno.** Implica que el proceso de toma de decisiones sea:

- » transparente
- » legal
- » participativo
- » responsable
- » consensuado
- » equitativo
- » eficaz
- » eficiente
- » sensible a las necesidades de las minorías

**GOBERNANZA ES UN MECANISMO,  
BUEN GOBIERNO ES UN IDEAL ÉTICO**

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## TIPOS DE GOBERNANZA

### ***Gobernanza global***

Algunos autores, como James Rosenau, han usado esta acepción para denotar la regulación de relaciones interdependientes sin la presencia de una autoridad política global. Un buen ejemplo de ello es el sistema internacional, es decir, las relaciones entre estados independientes. El término puede aplicarse también a un grupo formado por agentes libres e iguales que necesitan formar una relación regular.

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## TIPOS DE GOBERNANZA

### Gobernanza corporativa

El conjunto de procesos, costumbres, políticas, leyes e instituciones que afectan a cómo se dirige, administra o controla una empresa (corporación).

También incluye las relaciones entre los agentes implicados en ellas (desde la propiedad a la dirección, los controladores externos, acreedores, inversores, clientes, suministradores, empleados y el entorno y la sociedad entera).

### Gobernanza empresarial

Hay que impulsar el desarrollo de una cultura global que incluya especialmente la cultura del mundo empresarial, potenciando el carácter de la empresa y el empresario como propulsores de la actividad económica.

### Objetivos de una empresa

- aumento de la productividad
- aumento de los beneficios

Esto ya no es suficiente. Ahora es necesario encontrar respuesta a la pregunta básica de ¿por qué existe esta empresa?

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Cada vez más, los códigos de buen gobierno corporativo incluyen objetivos:

- **sociales**
- **ambientales**
- **económicos**

En concreto, valores como la sostenibilidad de la empresa a largo plazo expresan que la realidad es altamente interdependiente y compleja.

Otro gran objetivo es la **transparencia**:

- El consejo de administración de cualquier empresa tiene entre sus principales objetivos la responsabilidad de lograr que los accionistas y otros agentes implicados reciban información de alta calidad sobre los resultados financieros y operacionales de la entidad. Información relacionada con los resultados financieros y operacionales de la empresa para permitirles comprender cabalmente la índole de su actividad, su situación actual y su desarrollo con miras al futuro.

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**“DECÁLOGO DE PRÁCTICAS DESEABLES EN LAS EMPRESAS COMO  
EJEMPLO DE BUEN GOBIERNO”  
(The economist 2003)**

1. Estricta vigilancia sobre las finanzas de la compañía.
2. Ausencia de intereses en conflicto por parte de los consejeros externos.
3. Consejo de administración homogéneo por habilidad y edad.
4. Compensaciones adecuadas y justas a los altos directivos.
5. Severidad en los requerimientos de la empresa con respecto a la posibilidad de que ejecutivos y consejeros vendan sus acciones en momentos de alza.

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## **TIPOS DE GOBERNANZA**

### ***Gobernanza proyectiva***

Tal como se usa en la industria (especialmente en el sector de las tecnologías de la información), describe los procesos que necesitan darse para un proyecto exitoso. En concreto, recibe mucha atención el asunto de la Gobernanza de la tecnología de la información.

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## OTROS TIPOS DE GOBERNANZA

- **Gobernanza política** Adaptación a la mundialización de organismos propios de la política de los estados como los partidos políticos; la necesidad de una participación ciudadana más substancial como parte de la reforma de los estados y del protagonismo de instituciones intermedias que implica la legitimidad política democrática en todas las escalas del territorio (local, estatal, regional y mundial).
- **Gobernanza económica** En los dos últimos años hemos visto como las instituciones financieras internacionales no han sabido resolver las deficiencias del mercado, son organizaciones poco transparentes y, a veces, con rasgos de falta de democracia. La incapacidad, por parte de la economía de mercado, de satisfacer las necesidades de los ciudadanos permite que, sin regulación del sistema social y medioambiental, el capitalismo se va concentrando en unos pocos, falta una adecuada redistribución, admitiendo la capacidad productiva del sistema al objeto de mejorar las condiciones de población mundial. Las reglas del juego deben modificarse.

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## OTROS TIPOS DE GOBERNANZA

- **Gobernanza estratégica** La cooperación y la solidaridad entre los países potencian el acceso al conocimiento, el intercambio de experiencias y la adquisición de tecnologías e instrumentos de gestión, con intenciones de perfeccionar el proceso de planificación y de la decisión, de promover la gobernanza estratégica y de buscar la eficiencia de las políticas públicas, generando las condiciones favorables para un desarrollo integrado y sostenible.
- **Gobernanza en internet** Estrategias a partir de encuentros como los foros sociales mundiales; propuestas y experiencias de cooperación en red entre instituciones como el foro parlamentario mundial y la política simultánea; la postura a adoptar frente a instituciones internacionales como el G20 y el tema fundamental de la legitimidad.
- **Gobernanza Local** Utilizando principalmente procesos del tipo "planificación estratégica urbana". Conjunto de normas, procesos y comportamientos de nuestras autoridades locales (municipalidad) que deben centrarse en 5 pilares fundamentales (según el LIBRO BLANCO DE LA UNION EUROPEA): apertura, participación, responsabilidad, eficacia y coherencia.

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• **Una de las claves de la GOBERNANZA:**

Configurar modelos basados en redes relativamente estructuradas con procedimientos formales e informales.

Uno de los actores más relevantes del mundo que operan con este tipo de reglas es la Unión Europea, que funciona con combinaciones híbridas de actores y de sistemas de relaciones nacionales, supranacionales, intergubernamentales, transgubernamentales y transnacionales como describe Nguyen Manh Hung.

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**RETOS QUE PLANTEA EL BINOMIO  
GLOBALIZACIÓN-GOBERNANZA**

1. Armonizar y compartir la acumulación de información
2. Proteger el medio ambiente
3. Utilización equitativa y social de los recursos energéticos
4. Armonizar los desajustes de población entre los países
5. Armonizar los desajustes económicos
6. Armonizar los desajustes sociales

Estos retos deben interpretarse como metas hacia las que inevitablemente se debe tender, metas que en definitiva no se trata de otra cosa que de ajustar los desequilibrios que necesariamente se producen en toda sociedad dinámica sometida a tensiones de toda índole.

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**1. ARMONIZAR Y COMPARTIR LA ACUMULACIÓN DE INFORMACIÓN** para que ésta pueda convertirse en conocimiento que pueda administrarse, gestionarse y aplicarse a objetivos que satisfagan las necesidades de la nueva sociedad global.

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**2. PROTEGER EL MEDIO AMBIENTE** para resolver problemas derivados del mal uso de los recursos:

- » Agotamiento de los recursos
- » Contaminación
- » Cambio climático
- » Acumulación de residuos

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### **3. UTILIZACIÓN EQUITATIVA Y SOCIAL DE LOS RECURSOS ENERGÉTICOS (La Generación Distribuida de la Energía)**

La tendencia hacia un horizonte de pequeños productores, numerosos y autogestionados al estilo de Internet, podría resolver muchos de los problemas derivados del actual sistema de producción energética. Es lo que, siguiendo a J. Rifkin, se ha dado en llamar *generación distribuida*.

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### **4. ARMONIZAR LOS DESAJUSTES DE POBLACIÓN ENTRE LOS PAÍSES**

Los países industrializados y ricos necesitan mano de obra foránea pero, al mismo tiempo, deben limarse las asperezas que se producen en el inevitable choque cultural entre la gente del país y los emigrantes.

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## **5. ARMONIZAR LOS DESAJUSTES ECONÓMICOS**

No hace falta insistir en este punto, puesto que es ampliamente conocida la diferencia entre los países del mundo desarrollado, los emergentes y los simplemente pobres.

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## **6. ARMONIZAR LOS DESAJUSTES SOCIALES**

Debe impulsarse un sistema estable y soportable económicamente de protección social para conseguir que los más desfavorecidos tengan acceso a la sanidad, a las pensiones de jubilación y en general al disfrute de lo que se ha dado en llamar sociedad del bienestar.

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## CONCLUSIÓN

Parece que empieza a construirse una nueva gobernanza mundial responsable que permitiría adaptar la organización política de la sociedad a la globalización, ello sería factible si llegara a conseguirse una legitimidad política a nivel local, regional, estatal y mundial.

## **Session 2: POWER AND COUNTER-POWER**

***Chairman: Christopher J. Medlin (FACIREM,  
University of Adelaide Australia)***

***. Which Corporate Governance through  
Globalization ? Critical Approach to the New  
Institutional Economy*** ***p. 75***

Christine Jaeger (FACIREM, Université de La  
Réunion, France)

***. The Contribution of the 3rd Sector to a Post  
Crisis Globalized Governance*** ***p. 92***

Patrick Valéau (FACIREM, Université de La  
Réunion, France)

***. Governance : An approach in terms of Power  
and Counter Power*** ***p. 109***

Jérôme Gardody (FACIREM, Université de La  
Réunion, France)

# ***WHICH CORPORATE GOVERNANCE THROUGH GLOBALIZATION ? CRITICAL APPROACH OF THE NEW INSTITUTIONAL ECONOMY ON THIS QUESTION***

Christine Jaeger – Chercheur au FACIREM – Université de la Réunion –  
Franco-Australian Centre for International Research in Management Science

## **Abstract**

Among the economists, neo-institutionalists are those who, in the recent period, took a special care for firms generally speaking and corporate governance in particular. The question is to determine the type of governance which will be the most efficient. This question drives immediatly to ask which incentives will drive to an efficient arrangement between owners, managers and employees in a context of asymmetric information.

We will first evoke the two kinds of answers : the one of the Agency Theories (Stiglitz, Alchian & Demsetz, Jensen & Meckling) and the one of the Transaction Cost Theory (Coase, Williamson). Whith some variants, they converge to base theoretically the practice of what is called today « the shareholders oriented governance ». Then, taking for support some recent works (R. Perez, J. Stiglitz, J.C. Graz), we will point out that the shareholders oriented governance, through the context of globalization, becomes a stock exchange pattern : each process of increasing or assignment of capital assets must create « value for the shareholders ». Financial markets operate like a court of arbitration for these transactions and short term becomes the skyline of managerial decisions. Now, as the present crisis shows, there is no real governance of globalized markets : by themselves, their mechanisms are far from being stabilizing devices or driving toward a social optimum. The « sharholders oriented » governance create social and environmental externalities. Is there another pattern of corporate governance which would come to light ? And how could be built a better « globalized governance ? As governance is the art to « administrate whithout government », is it legitimate to search for a better « governance » rather than a stronger global « regulation »? Indeed, regulation of global markets is still to build while international institutions are not deeply reformed.

# ***Quelle gouvernance d'entreprise dans la mondialisation ? Approche critique de l'économie néo-institutionnelle sur cette question***

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La gouvernance peut être définie de prime abord et de façon simple, comme « l'art de gouverner sans gouvernement »<sup>6</sup> Cela signifie que lorsque, dans une organisation ou une société, aucun acteur ne dispose de légitimité<sup>7</sup> pour prendre et imposer des décisions, puis contrôler le comportement des autres acteurs (l'application des décisions), alors une série de dispositifs doivent être mis en place pour que l'organisation soit efficiente (ou que le société fonctionne et perdure). Cela signifie aussi qu'il n'existe pas de « mécanismes » susceptibles à eux seuls de permettre une coordination efficace entre les acteurs économiques ou sociaux comme la variation des prix relatifs sur le marché. Autrement dit, les problèmes de gouvernance émergent lorsque ni le marché, ni un gouvernement légitime ne permettent à eux seuls de résoudre les besoins de coordination et de coopération entre acteurs au sein d'une organisation ou d'une société.

Les économistes dans la mouvance néo institutionnelle se sont attaché à explorer les dispositifs de gouvernance dans le cas des entreprises. En effet, à la différence des économistes orthodoxes, ils reconnaissent que les firmes ne sont pas de simples boîtes noires et que la manière dont les acteurs économiques se coordonnent, les institutions et dispositifs auxquels ils recourent pour coopérer efficacement, font partie des problèmes essentiels que l'économie doit aborder. Or dans les entreprises, trois groupes d'acteurs principaux doivent impérativement se coordonner malgré leurs divergences d'intérêts : les actionnaires (ou propriétaires), les dirigeants (ou décideurs), et les salariés. Coase (1937) sera le premier à mettre au jour la différence entre les problèmes de coordination posés par la relation marchande classique (achat/vente sur le marché) et ceux issus de la relation d'emploi dans l'entreprise<sup>8</sup>.

Simon (1979) montrera plus tard que ces acteurs doivent passer des compromis entre eux pour que l'entreprise fonctionne (cf le théorème Barnard/Simon de l'équilibre de l'entreprise) . Stiglitz (1987) expliquera que les problèmes de coordination entre ces trois groupes constituent autant de « relations d'agence », i.e. de relations entre principal et agent qui doivent être régulées par une contractualisation adaptée donc une gouvernance spécifique à

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<sup>6</sup> Roland PEREZ, La gouvernance d'entreprise – La découverte, 2003 – p 11.

<sup>7</sup> Cf. Max Weber, Le savant et le politique, Plon 1959 (1<sup>o</sup> ed. 1919) , cf. « le métier et la vocation d'homme politique. »

<sup>8</sup> Dans l'ensemble du système économique , « *l'allocation des facteurs de production entre différents usages possibles est déterminée par le système des prix* »... Mais «  *dans le monde réel, il y a de nombreux domaines où ce raisonnement ne trouve pas à s'appliquer. Si un travailleur se déplace du service Y vers le service X, ce n'est pas à cause d'un changement dans les prix relatifs, mais parcequ'on lui ordonne de le faire* »... Ronald Coase, 1987, p 34. : The Nature of the Firm, *Economica*, 1937, p 386-405 - Trad française dans la Revue française d'Économie, vol. II, N°1, hiver 1987, p 133/157.

chaque configuration relationnelle. Williamson (1985,1994). quant à lui, définit l'entreprise comme une « structure de gouvernance » .

Ainsi les économistes néo institutionnels s'accordent sur l'existence de problèmes de coordination entre acteurs économiques qui ne sont pas gérables par les mécanismes du marché et en conséquence la nécessité d'une gouvernance qui passe par une contractualisation entre eux évitant l'opportunisme, les free riders (clandestins), bref, le désordre... D'où l'appellation de cette mouvance également comme « l'économie des contrats ». Cela dit, à l'intérieur de cette mouvance deux courants doivent être distingués : celui de la théorie de l'agence (on notera TA pour la suite) et celui de l'économie des coûts de transaction (on notera ECT pour la suite). En effet ces deux courants ne posent pas les problèmes de gouvernance dans les mêmes termes.

### **Gouvernance d'entreprise et relation d'agence.**

*« Les relations principal /agent, sont celles par lesquelles un individu (le principal) doit élaborer un contrat pour motiver un autre individu (l'agent) à agir dans le sens des souhaits du principal ou à révéler les informations qui importent au principal. Elles sont dominantes dans notre économie... Les relations entre créancier et emprunteur, employeur et employé, compagnie d'assurance et assuré, propriétaire et locataire, actionnaires et managers, en sont des exemples »...* Tels sont les termes dans lesquels Stiglitz (1987) présente ce que sont les relations d'agence.

Deux caractéristiques de la relation principal/agent sont essentielles : il existe un conflit d'intérêt entre le principal et l'agent (leurs fonctions de préférences divergent), et il y a asymétrie d'information entre eux (l'un sait des choses que l'autre ignore).

Ces deux caractéristiques doivent exister ensemble pour qu'un problème de « relation d'agence » surgisse : s'il n'y a pas de conflits d'intérêts, les défauts d'information importent peu. S'il y a conflits d'intérêts, mais information symétrique de part et d'autre, aucun des partenaires ne peut faire défection, donc le contrôle de l'autre n'est pas coûteux..Pour la TA, les problèmes principaux sont issus de *l'inobservabilité des efforts des partenaires* et surtout bien entendu, de ceux de l'agent lorsque ses efforts sont inobservables : comment les évaluer? Comment les mesurer ? Comment s'assurer qu'ils seront suffisants? La gouvernance d'entreprise se décline alors en deux sortes de problèmes de coordination : la relation d'emploi d'une part –entre dirigeants et salariés- , et d'autre part la relation entre actionnaires et dirigeants.

### **Relation d'agence et salaire d'efficience.**

Il s'agit ici de trouver un dispositif d'incitation qui motive le salarié à travailler pour le principal au mieux des intérêts de celui-ci, et qui empêche le principal d'abuser de sa situation dominante... Stiglitz (1987) démontre qu'il existe une solution pour que la coordination principal/agent se déroule au mieux entre dirigeants et salariés : d'une part un mode de contractualisation incomplet entre eux doit être choisi, d'autre part, comme le paiement du principal à l'agent est déconnecté de la productivité marginale individuelle (inobservable), il doit être supérieur au salaire de marché : c'est le salaire d'efficience.

Ainsi, la relation d'emploi n'est qu'un cas particulier d'un problème plus général : la relation d'agence. En outre, et dans tous les cas, il s'agit d'un problème d'incitation : trouver les dispositifs capables de permettre à des partenaires de se coordonner dans un univers où les intérêts sont divergents et l'information imparfaite. En l'occurrence les partenaires sont dotés

de moyens inégaux, en ressources mais aussi en préférences : les agents non seulement sont pauvres, mais en plus ils ont une aversion pour le risque.

Pour Stiglitz, cette solution est doublement avantageuse .

Le contrat incomplet permet au principal d'imposer ses vues lors des aléas de la production.

Le salaire d'efficiences fonctionne comme un outil de contrôle entre les partenaires : il incite les salariés à travailler en maximisant leurs efforts productifs pour le principal. S'ils ne le font pas, il y a « une menace crédible de licenciement » qui les renvoie sur le marché du travail où leur salaire sera moins élevé . Pour le principal, c'est un coût qu'il doit subir pour obtenir de ses salariés l'effort requis, mais en même temps, ce coût est limité, calculable. Il indique donc la limite du paiement à obtenir pour les agents et à consentir pour le principal.

La relation d'emploi pose donc entre autres des problèmes de contrôle, de surveillance, d'évaluation des comportements de chaque partenaire. C'est précisément ce sur quoi Alchian et Demsetz s'interrogent.

### ***Relation d'agence et rétribution du « contrôleur ».***

Pour Alchian & Demsetz (1972), la production en équipe implique des coûts spécifiques de surveillance, liés aux problèmes de mesure de performances : elle ne sera utilisée que « *si elle permet un accroissement significatif de productivité, nette des coûts de mesure associés à la discipline de l'équipe, et alors la production en équipe sera préférée à une multitude d'échanges bilatéraux d'outputs individuels séparables.* »<sup>9</sup>

La relation d'emploi naît donc de la production en équipe lorsque celle-ci requiert une surveillance coûteuse de ses membres pour éviter les comportements de défection. La production en équipe doit donc dégager un résultat supérieur à la somme des productions individuelles, entre autres pour assurer ces coûts de surveillance.

Ces auteurs vont montrer que cette surveillance ne peut être exercée sur le marché, c'est un contrôleur central de la coopération qui doit assurer cette fonction : « *une méthode permettant de réduire la fraude consiste à ce que quelqu'un se spécialise dans le contrôle de la performance productive des membres de l'équipe* »<sup>10</sup>. C'est donc dans le cadre de la firme centralisée que s'opère au mieux la production en équipe avec la fonction de contrôle, condition de son efficacité.

Mais alors comment contrôler le contrôleur pour qu'il assure sa tâche de surveillance dans l'intérêt de tous ? « *Il faut s'assurer que le contrôleur ne se dérobe pas à son devoir de contrôle : le moyen s'inspire à nouveau des principes de la rémunération à la productivité marginale : puisque la fonction du contrôleur est de réduire la flânerie, sa productivité est égale à l'accroissement du produit imputable au contrôle : il faut le rétribuer par les gains nets de l'équipe, nets de la rémunération des autres inputs* »<sup>11</sup>.

Ainsi , pour être efficace, le contrôleur doit être rétribué par le profit, mode de rémunération qui seul peut garantir son efficacité : puisque bien évidemment dans cette argumentation, c'est lui qui est à la source du profit et de tout le profit, le profit lui est donc imputable : « *Si tous les inputs coopérants sont d'accord pour qu'il reçoive le produit résiduel au delà des montants prescrits, alors il ne sera pas incité à la dérobade*».

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<sup>9</sup> Alchian A & Demsetz H Production, Information costs and Economic organization, The american economic review, vol 62, N° 5 dec 1972, p.780

<sup>10</sup> ibid, p 781

<sup>11</sup> ibid. p 782



Le contrôleur reçoit alors « la rémunération résiduelle » (créée au delà des productivités marginales) , il gagne son résidu non seulement par la réduction de la dérobade qu'il effectue, non seulement par les prix qu'il accepte de payer aux propriétaires d'inputs, mais aussi en observant et dirigeant les actions de ces inputs : « *Diriger et examiner les modes d'utilisation des inputs dans la production en équipe, c'est une méthode de mesure de la productivité marginale des inputs individuels à l'output de l'équipe* »<sup>12</sup>...

Mais la rétribution de ce contrôleur par la « rémunération résiduelle » ne suffit pas encore : pour qu'il soit efficient, il faut aussi que les membres de l'équipe lui attribuent volontairement un certain nombre de droits de décision: « *Pour réduire la flânerie et discipliner les membres de l'équipe, le titulaire du résidu doit avoir le pouvoir de réviser les contrats de chacun. Dès lors, les membres de l'équipe qui cherchent à augmenter leur productivité n'attribueront pas seulement au contrôleur le résidu, mais aussi le droit de modifier les appartenances et la performance de chacun dans l'équipe. Chacun peut évidemment résilier son propre contrat, mais seul le contrôleur peut unilatéralement résilier celui de n'importe quel membre.* »  
Et vient la conclusion : « *L'équipe ainsi contrôlée s'identifie à la firme capitaliste.* »

D'ailleurs remarquons, nous disent-ils, que « *dans ces conditions, la relation de chaque membre de l'équipe au propriétaire de la firme est simplement un contrat quid pro quo: cette relation - qui est une relation d'emploi - est un échange égal : l'employé commande à l'employeur de lui remettre un salaire, de la même façon que l'employeur le commande dans son travail et l'employé peut mettre fin au contrat aussi facilement que l'employeur...* » Ainsi, la relation d'emploi est-elle une relation symétrique, puisque c'est volontairement, par souci d'efficience, que les membres de l'équipe attribuent tous les droits de décision, de surveillance, d'organisation interne, et enfin le surplus, au contrôleur central.... et qu'ils peuvent quand il le souhaite abandonner l'équipe...

Cependant, lorsque le dirigeant (le contrôleur) n'est plus le propriétaire de l'entreprise, d'autres dispositifs de gouvernance doivent être mis en place pour garantir que les comportements des actionnaires (qui deviennent « principal ») et des dirigeants (les agents dans ce cas) ne nuisent pas à l'intérêt collectif de l'entreprise. Jensen et Meckling expliquent que dans ce cas, le fonctionnement du marché boursier servira de « mécanisme de contrôle ».

### ***Relation d'agence entre dirigeants et actionnaires : le contrôle du marché boursier.***

Dans leur article de 1976, Jensen & Meckling indiquent comment réduire le conflit entre management et actionnaires. Ils considèrent que les dirigeants d'une société par actions sont moins enclins à contrôler efficacement l'entreprise que s'ils en étaient propriétaires. Mais les actionnaires vont avoir un rôle et on doit donc se demander pourquoi de nombreux individus se précipiteraient sur des actions d'entreprises dont les managers seraient, par définition, moins performants que de véritables propriétaires. Ils partent alors du cas d'un entrepreneur propriétaire qui veut étendre le champ d'action de sa firme et cherche donc des capitaux par emprunt ou émission d'actions.

Les actionnaires potentiels savent 3 choses sur le comportement du futur manager qui ne sera plus propriétaire exclusif :

- il s'appropriera une part des ressources de la firme pour son propre bien-être; tendance d'autant plus forte qu'il aura une faible part;
- sa capacité à chercher de nouvelles activités créatrices décroît, source de conflit le plus important entre manager et actionnaires, car il veut diminuer l'anxiété ressentie alors puisqu'il n'en retirera plus le bénéfice exclusif;

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<sup>12</sup> ibid. p 782

- l'endettement l'incite à privilégier les investissements à potentiels de rendement les plus élevés qui sont aussi les plus risqués, incitation qui sera d'autant plus forte que le montant de ses apports personnels est faible relativement aux obligations émises (si le projet réussit, il encaisse le maximum, s'il échoue, ces sont les prêteurs qui payent...).

Managers et actionnaires ou obligataires sont donc dans une relation d'agence qui a trois caractéristiques :

- le principal peut limiter les divergences par rapport à son propre intérêt en mettant en place des incitations appropriées pour l'agent et en supportant des coûts de contrôle visant à limiter les comportements aberrants de l'agent<sup>13</sup> ;
- il sera payant pour l'agent d'utiliser des ressources (les coûts d'engagement<sup>14</sup>) pour garantir au principal qu'il n'entreprendra pas certaines actions qui pourraient lui être dommageables ou pour lui assurer qu'il percevra des compensations s'il entreprend de telles actions »<sup>15</sup> ;
- malgré le contrôle et l'engagement, il subsistera toujours une certaine divergence entre les décisions de l'agent et celles du principal, l'équivalent de cette différence de satisfaction s'analyse comme un coût supplémentaire d'agence : la perte résiduelle.

Les coûts d'agence sont en fait supportés par le manager : les acheteurs paient les actions à un prix qui intègre les coûts de contrôle et la perte résiduelle, ils ne gagnent donc rien à réduire les coûts d'agence. En effet, c'est à l'initiative du manager que seront mises en place les activités de contrôle : il trouvera intéressant de supporter ces coûts tant que l'accroissement de bien-être qu'il obtient en échangeant ses droits sur la firme contre un pouvoir d'achat est assez important pour les compenser... S'il fait appel à l'extérieur, le manager va donc être contrôlé : les coûts d'agence sont les coûts de la « séparation de la propriété et du contrôle »<sup>16</sup>. Jensen & Meckling vont considérer que le financement externe partiel est réalisé par l'émission d'actions et affirmer qu'en cas d'obligations, la structure générale de la solution est la même. Dans les firmes capitalistes, le contrôle est donc réalisé par le marché des titres et le contrôle direct des actionnaires et détenteurs d'obligations sur le manager (via le conseil d'administration), c'est pourquoi ces firmes sont les formes de production les plus efficaces...

La gouvernance d'entreprise pour les théories de l'agence repose donc sur trois dispositifs contractuels d'engagements réciproques des acteurs : le salaire d'efficience pour Stiglitz qui garantirait le comportement des salariés, l'attribution du profit et de l'autorité au dirigeant s'il est seul propriétaire de l'entreprise<sup>17</sup>, le contrôle de l'entreprise par les actionnaires via le marché boursier lorsque propriétaires et dirigeants sont dissociés. Dans ce dernier cas, la stratégie des dirigeants doit impérativement tenir compte de l'évolution de la valeur des actions de l'entreprise.

### **Gouvernance d'entreprise et coûts de transaction<sup>18</sup>.**

Pour Williamson ( 1999 )<sup>19</sup>, « la firme doit être considérée comme une structure de gouvernance - qui est une construction organisationnelle - dans laquelle la structure interne a

<sup>13</sup> Jensen M.C. & Meckling W.C. Theory of the Firm : Managerial Behavior, Agency Costs and Ownership Structure, Journal of Financial Economics, N°4, Octobre 1976, p 313

<sup>14</sup> coûts d'engagement : tels que rapports financiers, audits, etc... cf. Enron et le cabinet Andersen...

<sup>15</sup> ibid. p 308

<sup>16</sup> ibid. p 343

<sup>17</sup> on pourrait voir alors la différence entre productivité marginale et salaire d'efficience comme un coût d'agence à la charge du dirigeant, le cas échéant.

<sup>18</sup> Par souci d'aller au plus rapide, on ne présentera ici que la position de Williamson qui nous semble la plus représentative de ce courant.

*des buts et des effets économiques. On peut ainsi expliquer aussi les modes alternatifs. Comme chaque mode de gouvernance générique a des forces et des faiblesses distinctes, il faut supposer que leur place correspond à des besoins distincts suivant les attributs plus ou moins spécifiques des transaction (et donc leurs couts) » .*

Les dispositifs d'incitation et de contrôle des salariés sont coûteux mais en leur absence, l'entreprise ne serait pas performante. L'entreprise est un lieu où se nouent des arrangements contractuels entre salariés, dirigeants et actionnaires. Ces arrangements constituent des engagements réciproques entre les différents partenaires, engagements qui forment la base de la gouvernance d'entreprise. En effet, les contrats (même incomplets) ne suffisent pas. Pour être efficaces<sup>20</sup>, il faut des engagements réciproques car les seules clauses du contrat sont variables et insuffisantes pour que ces contrats s'appliquent d'eux mêmes. Dans un contexte d'asymétrie d'information et de transactions coûteuses parceque spécifiques, les partenaires sont liés l'un à l'autre et ne peuvent pas redéployer leurs actifs sans coûts si la relation se passe mal.

Ainsi, pour la relation d'emploi, le problème est le suivant : une des parties prenantes à la transaction a une connaissance plus détaillée que l'autre : il y a asymétrie d'information. Il s'agit donc « *d'affaiblir l'incitation à tromper* » de celui qui dispose des informations et de l'inciter à « *dévoiler les vrais attributs* » de sa tâche. Il faut d'une part trouver une organisation du travail qui permette de mieux mesurer les efforts, la performance de chacun, et d'autre part, des systèmes d'incitations qui conduisent les travailleurs de l'organisation à fournir des performances efficaces. A la différence de la TA, l'ECT avance que les deux problèmes (mesure et incitation) sont distincts.

C'est la *hiérarchie avec relation d'autorité*, qui se révèle le mode de gouvernance les plus efficient lorsque les transactions sont spécifiques (asymétries d'informations, relation qui se déroule dans le temps avec les aléas qui s'ensuivent<sup>21</sup>. Contrats incomplets + salaire incitatif + autorité + hiérarchie caractérisent alors une relation d'emploi efficiente : « *la hiérarchie est inévitable à moins d'accepter des sacrifices d'efficacité* ». Elle suppose que les salariés ne participent pas aux décisions clés de l'entreprise. « *Dans l'entreprise moderne, ce sont les actionnaires qui doivent être protégés, car leurs actifs, une fois investis, sont difficilement redéployables* »<sup>22</sup>

Pour le démontrer, Williamson raisonne à partir du fameux « schéma de la contractualisation » reproduit ci-dessous<sup>23</sup> :

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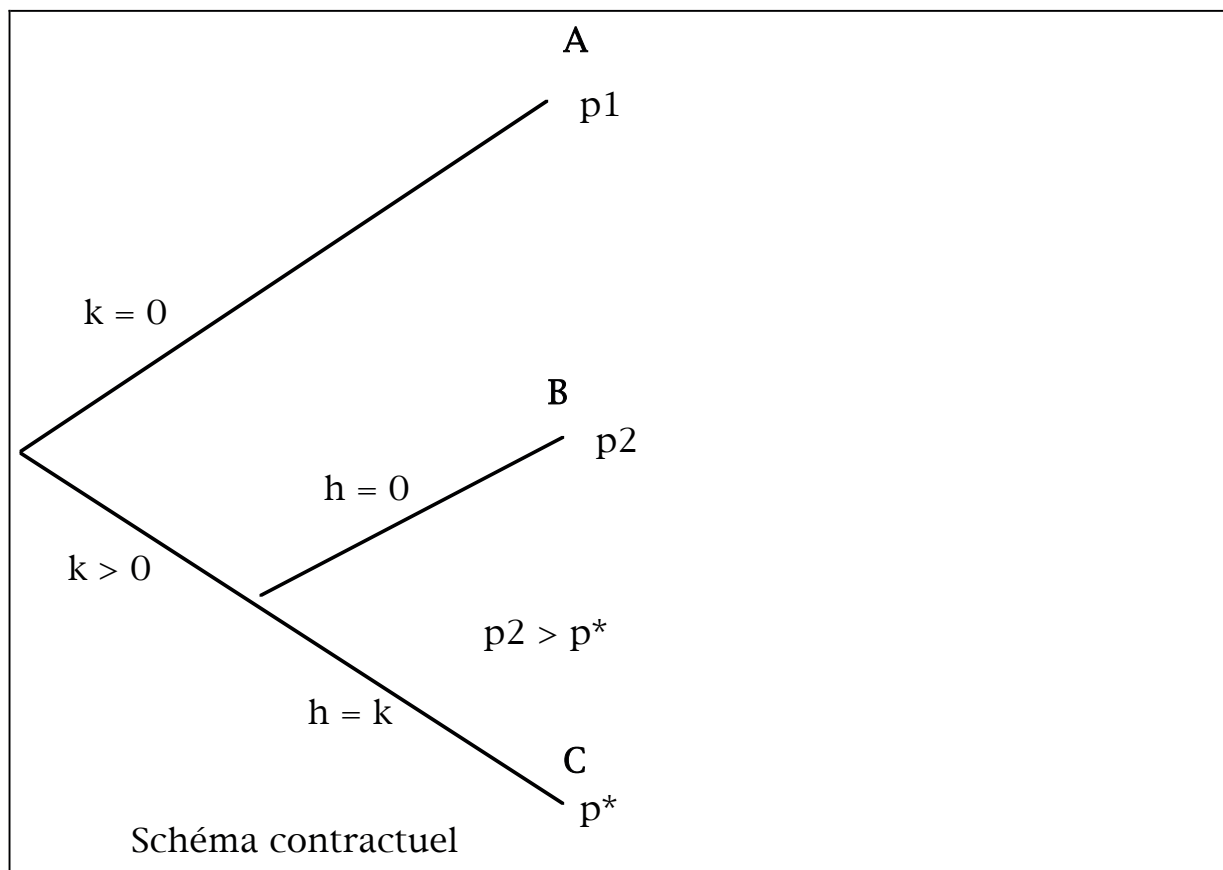
<sup>19</sup> Allocution d'ouverture à la Conférence de l'ISNIE, automne 1999 : « Taking Stock/Looking ahead »

<sup>20</sup> O. Williamson : « Les institutions de l'économie », interéditions, 1994 - trad de : « The economic Institutions of capitalism », Free press, 1985.

<sup>21</sup> Cf. W , 1994, chapitre sur l'organisation du travail .

<sup>22</sup> Williamson, 1994, p 274

<sup>23</sup> ibid. p 334



$k$  : coûts de redéploiement des actifs. S'ils sont spécifiques,  $k > 0$

$h$  : coût de l'engagement des partenaires (n'existe pas si  $k = 0$ ) : assurance contre l'opportunisme

A, B, C : « noeuds de la contractualisation » :

A = marché,

B = engagement contractuel sans garantie du partenaire, cette absence de garantie conduit au prix  $p_2$ , le plus élevé,

C = engagement avec garantie, un prix  $p^*$ ,  $< p_2$ , peut être proposé...

« Les fournisseurs de matière première, de force de travail, etc, restent en possession de leurs actifs, et si  $k = 0$ , peuvent normalement les redéployer. Ils peuvent également renégocier les termes de leurs contrats ... Ce qui conduit en définitive, nous explique Williamson, à une conception symétrique de la relation employeurs/salariés : « l'employeur loue les travailleurs, les travailleurs louent leurs employeurs »<sup>24</sup>.

Les fournisseurs de fonds, par contre, sont exposés au risque et toujours au noeud B ou C. Ils forment un groupe et sont uniques en ce que leurs investissements ne sont pas associés à des actifs particuliers : si aucune forme de protection n'était créée, ils se situeraient au noeud B, ce qui impliquerait un surpris pénalisant pour la firme. Par contre, «lorsqu'ils contrôlent le conseil d'administration par leurs votes, alors on se déplace au noeud C (...) Le conseil d'administration est donc un instrument de gouvernance aux mains des actionnaires (...) La fonction principale du conseil demeure celle de fournir une structure de gouvernance protectrice aux actionnaires »<sup>25</sup>.

<sup>24</sup> ibid. p 335

<sup>25</sup> ibid. p 333

Mais les actionnaires et dirigeants peuvent, eux aussi être opportunistes ! Ainsi, quand le profit s'effondre, remarque Williamson, « *les dirigeants vont imposer de baisses de salaires pour faire supporter la perte aux salariés : la position de la direction est donc : « pile , je gagne, face, vous perdez »... Surtout si les contrats de travail sont à long terme, si les actifs humains sont très spécifiques et la direction, plus opportuniste. Il faut d'autres précautions* ». On doit alors mettre en place des dispositifs d'incitations décourageant l'opportunisme des dirigeants : « *Pour les dirigeants, il y a des difficultés supplémentaires : leurs contrats sont négociés individuellement, ils ne font pas l'attention des pouvoirs publics, bref, ils semblent écrire leur propre contrat d'une main et le signer de l'autre.... Quels types de protection sont donc possibles ?* »

La solution de Williamson : les parachutes en or. On doit en effet « *reconnaître les mérites à englober des rémunérations qui dissuadent les licenciements irréfléchis et les démissions non désirées. Eviter que les firmes versent des indemnités pour les licenciements et que les dirigeants sacrifient des droits non dévolus s'ils quittent l'entreprise peut servir à garantir des actifs spécifiques. Ainsi, les « parachutes en or , phénomène récent, est une réponse possible... Il vaut mieux pour les actionnaires proposer le parachute en or (noeud C) qu'accepter un sur-salaire que demanderont les dirigeants qui ont peur des rachats (noeud B) »<sup>26</sup>.*

On peut donc décrire le dispositif de gouvernance à partir du schéma de contractualisation de la manière suivante :

Les fournisseurs de capitaux proposent leurs actifs spécifiques à un prix P2 ou p\*, selon la présence ou pas de garanties de gouvernance. Si on commence par P2, on s'aperçoit vite que c'est inefficace, on passe donc à p\* avec garantie, ce que les salariés appellent : « *conseil d'administration et (ils) l'offrent aux fournisseurs d'actions. Ceux-ci offrent alors leurs capitaux à p\** ». Le conseil d'administration au sein duquel ne votent que les actionnaires est donc la garantie offerte par les salariés à ceux-ci qui peuvent donc alors investir leurs capitaux en toute confiance. :« *ce résultat se matérialise non par un processus historique, mais par un processus logique* »<sup>27</sup>.

Dans des travaux plus récents, Williamson (1997) précise la différence de sa vision avec celle de la TA en ce qui concerne l'autorité d'une part, le marché des capitaux d'autre part.

Pour lui, chaque mode d'organisation repose sur une loi contractuelle distincte, « *ce qui contredit Alchian et Demsetz quand ils avancent que firme et marché sont de même nature contractuelle. La vision de la firme comme noeud de contrats (celle de la TA) laisse de côté l'essentiel de la firme comme mode de gouvernance* ». L'adaptation bilatérale effectuée par le « fiat » est un trait caractéristique de l'organisation interne : « *la loi de contractualisation implicite de l'organisation interne est celle de la « forbearance » ( indulgence) : la justice traite des disputes entre firmes sur les prix, la qualité, etc, mais non sur les conflits internes entre les départements d'une firme. Puisque les parties n'ont pas accès à la justice pour régler leurs différends, ils doivent les résoudre en interne : la hiérarchie est cette cour du dernier appel.(...)L'argument selon lequel les firmes « n'ont pas de pouvoir de fiat, d'autorité, d'action disciplinaire qui soient différents de la contractualisation du marché » (Alchian & Demsetz) est tout à fait faux : les firmes peuvent et de fait exercent un fiat que le marché ne peut pas exercer* »<sup>28</sup>.

<sup>26</sup> ibid. p 331

<sup>27</sup> ibid. p 339

<sup>28</sup> Hierarchies, Markets and Power in the Economy : an Economic Perspective, Oliver E. Williamson. P.23 in Transaction Cost Economics, Recent Developments, Claude Ménard ed., Edward Elgar, Cheltenham, UK, Brookfields, US - 1997

En ce qui concerne le marché des capitaux, Williamson remarque<sup>29</sup> que la seule préoccupation des prêteurs est le profit ajusté aux risques. Les structures politiques non démocratiques sont pertinentes pour autant qu'elles aient une influence sur la contractualisation hasardeuse. Les capitaux ne sont pas seulement des instruments financiers, mais aussi des outils de gouvernance :

- les actifs facilement redéployables sont facilement financés par des emprunts (obligations donc);
- les actifs non redéployables le sont plutôt par de l'« equity finance » (le financement par actions) ;
- la structure de gouvernance associée à l'emprunt est plus légaliste et celle associée à l'equity finance est plus hiérarchique ;
- le directoire est un instrument de contrôle efficient des ayants droits résiduels quand les actifs sont peu redéployables ;
- refuser le contrôle du directoire dans ce cas revient à faire un investissement hasardeux qui élève le prix du financement .

L'actionariat (equity capital) est donc efficient à condition d'avoir accès au contrôle du directoire, d'où la structure hiérarchique dans ce cas qui vient d'abord des actifs spécifiques (des fournisseurs de fonds...).

Pour l'ECT, la gouvernance d'entreprise sera donc d'autant plus efficiente que la hiérarchie avec autorité régit les relations employeurs/salariés d'une part et que les actionnaires maîtrisent les décisions des conseils d'administration, acceptant d'offrir des parachutes en or pour éviter l'opportunisme des dirigeants/employeurs. Ces dispositifs de garanties mutuelles (d'engagements crédibles) permettent une gouvernance efficiente : les actionnaires sont protégés par leur droit de vote et leur contrôle du conseil d'administration, les salariés le sont par le parachute en or offert par les actionnaires aux dirigeants, évitant les abus de ces derniers, les dirigeants disposent du « fiat » , de l'autorité pour gérer et contrôler les salariés dans l'entreprise qui est donc une « hiérarchie ».

Pour la TA, lorsque les intérêts divergent et que l'information est asymétrique, les problèmes de coordination sont résolus par des contrats incomplets sous contrôle des marchés (marché du travail et marché financier principalement). Pour l'ECT, le contrôle des marchés ne suffit pas : la hiérarchie avec autorité complète les dispositifs d'engagements crédibles, de représailles etc... Malgré tout, on remarque aussi que finalement les deux courants accordent aux actionnaires et aux marchés financiers une place prépondérante dans les dispositifs de gouvernance d'entreprise. Ces deux courants (TA et ECT) conduisent donc à justifier par son efficacité ce qu'on appelle aujourd'hui : la «gouvernance orientée actionnaire » .

On ne développera pas ici les critiques théoriques de ces approches qui sont nombreuses<sup>30</sup>. On notera toutefois que pour la Nouvelle Economie Institutionnelle, la nécessité d'une gouvernance d'entreprise émerge à partir d'une situation d'incertitude : sinon, le marché et la variation des prix relatifs suffisent pour contrôler la coordination. Incertitude sur le déroulement de la coopération - en particulier en cas de production collective-, incertitude née des asymétries d'information et de la spécificité des transactions. Cette incertitude génère l'inefficacité des mécanismes automatiques, et donc la mise en place de dispositifs contrôlant les comportements des partenaires. Or, dans et autour de l'entreprise, comme le soulignent ces théories, les intérêts des partenaires sont divergents, voire conflictuels, mais au surplus, comme il s'agit aussi d'une situation d'information asymétrique, ils ont la possibilité de se

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<sup>29</sup> Ibid. p 15 et suivantes

<sup>30</sup> Cf. par exemple et entre autres: Gabriél & Jacquier (1994), Granovetter (2000), Jaeger (2000)

comporter de manière opportuniste, de faire défection, de se dérober... Ces dispositifs de gouvernance, pesants et plus ou moins coûteux, sont donc la condition de l'efficacité de l'entreprise, ie d'une coopération hautement productive car les intérêts individuels des agents ne les conduisent pas automatiquement, en leur absence, à l'optimum social : les conduites individuelles ne sont pas nécessairement conformes à l'ordre social ni à l'optimum économique, aussi bien des dirigeants et des actionnaires que des salariés... Il est donc tout à fait paradoxal que ces approches concluent finalement à une régulation ultime de la gouvernance d'entreprise par les marchés financiers et les actionnaires. Sauf à admettre qu'il n'existe pas d'asymétrie d'information et de divergences d'intérêts sur ces marchés, ce qui serait la seule justification théorique de ces positions... Or en théorie comme en pratique, on sait bien qu'il n'en va pas ainsi.

### **La gouvernance « orientée actionnaire » en pratique.**

**Les principales caractéristiques de la gouvernance orientée actionnaire sont évoquées dans leur grandes lignes par de nombreux auteurs. Nous suivons ici les travaux de Roland Perez (2003) <sup>31</sup>, évoquant trois traits saillants de ce mode de gouvernance.**

- **La souveraineté de l'assemblée générale des actionnaires. Elle s'accompagne de la disparition recommandée des clauses préférentielles pour augmenter la fluidité des actionnaires et leur permettre d'exercer leurs droits, de mieux les informer avec éventuellement des « sous- dispositifs » anti-OPA ou OPE. De ce fait, le rôle du conseil d'administration (CA) devient ambivalent : élu par l'assemblée générale des actionnaires, le CA doit donner son accord et veiller sur les décisions importantes, il devient donc la charnière entre actionnaires et dirigeants. Mais de plus en plus, le CA a un rôle de contrôle des dirigeants au profit des actionnaires.**
- **L'appui de procédures de contrôles des comptes, d'évaluations financières, etc...dont on sait qu'elles ont une efficacité souvent limitée...**
- **La régulation plus ou moins opérationnelle d'organisations professionnelles ( ordre des experts comptables par exemple), des réglementations des professions de banque et assurances, et des tutelles administratives (par exemple le CNC = conseil national de la comptabilité, etc.), et les institutions dites de régulation : en France par exemple: SEC (Securities and Exchange commission) et COB (commission des opérations de bourse). Là encore cette régulation laisse parfois à désirer...**

Tout ceci incite à recourir de plus en plus souvent à l'appel de nouveaux actionnaires. Cette arrivée de multiples actionnaires a un effet de dilution entraînant un risque de déstabilisation de l'équipe dirigeante d'un côté et la nécessité de partager les profits avec les nouveaux arrivants d'une autre côté. Dès lors, toutes les opérations d'augmentation de capital envisagées doivent « créer de la valeur » pour l'actionnaire. Le marché financier devient donc l'arbitre des opérations, ce qui limite les décisions du management... D'autant plus, souligne R. Perez, que les dirigeants sont incités à rendre à l'actionnaire les excédents disponibles : rachat d'actions pour soutenir les cours, recours raréfié à l'autofinancement, ce qui conduira pour les futures opérations d'investissements à s'adresser de nouveau au marché, avec une appréciation en termes de création de valeur pour l'actionnaire... De plus, comme le coût de la dette est inférieur au coût des fonds propres, on emprunte : ainsi, non seulement on économise d'autant les fonds propres, mais en plus on augmente mécaniquement leur rentabilité relative...

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<sup>31</sup> Roland PEREZ – La gouvernance de l'entreprise – La découverte, 2003

En pratique, ce mode de gouvernance conduit les dirigeants à de nouvelles stratégies pour répondre aux nouveaux impératifs financiers<sup>32</sup>. Au niveau de leur politique concurrentielle (modification des portefeuilles d'activités, diversification versus recentrage), au niveau de leur politique organisationnelle (internalisation versus externalisation : outsourcing) et au niveau de leur politique financière (de la gratuité des fonds propres à la prise en compte d'un coût du capital). Les structures d'entreprises se modifient : elles se déconcentrent en unités d'activités stratégiques (Strategic Business Units) plus facilement délocalisables et/ou vendables<sup>33</sup>. Pour Roland Perez, « la gouvernance d'entreprise orientée actionnaire est devenue un modèle boursier qui repose sur l'hypothèse que les marchés secondaires que constituent les bourses de valeur permettraient à tout moment de donner la valeur des choses et guider l'action des hommes »<sup>34</sup>.

Or les crises boursières de 2000/2001 (Internet puis ensemble des valeurs liées aux nouvelles technologies), puis le choc du 11 Septembre 2001 (transport aérien, industrie aéronautique, assurances sont touchées), et l'affaire ENRON de l'automne 2001 vont progressivement montrer, avant même la crise actuelle, que la gouvernance d'entreprise axée sur les marchés financiers n'est pas la panacée.

### Les marchés mondialisés et l'efficacité économique...

Lorsqu'il existe des asymétries d'information sur les marchés, le comportement des acteurs ne conduit pas à une situation optimale rappelle J. Stiglitz (2006)<sup>35</sup> : « chaque fois que l'information est imparfaite, en particulier quand il y a des asymétries d'information – lorsque certains savent quelque chose que les autres ignorent (autrement dit, toujours)-, la main invisible est invisible pour la bonne raison qu'elle n'existe pas. Sans réglementations et interventions appropriées de l'Etat, les marchés ne conduisent pas à l'efficacité économique »<sup>36</sup>.

En effet, poursuit-il « la recherche de leur intérêt personnel par les PDG, les comptables et les banques d'affaires n'a pas conduit à l'efficacité économique mais bien à une bulle spéculative accompagnée d'une allocation massivement déséquilibrée de l'investissement ». Lorsque la bulle éclate, il s'ensuit bien évidemment une crise, éventuellement accompagnée de récession. Il faudrait donc changer la donne : « la gouvernance d'entreprise peut reconnaître les droits de ceux qui souffrent des activités des firmes, et pas seulement les droits de leurs actionnaires »<sup>37</sup>. « Il existe des conditions extrêmes dans lesquelles on peut prouver que la maximisation de la valeur (ou du profit) par les entreprises conduit à l'efficacité économique...(...) Mais tant que l'information est imparfaite ou que les marchés constituent un ensemble incomplet, maximiser le bien-être des actionnaires ne conduit ni à l'efficacité économique, ni au bien-être général »<sup>38</sup>.

<sup>32</sup> Cf. par exemple Vincent de Gaulejac, « la société malade de sa gestion », le Seuil 2005

<sup>33</sup> cf. Jaeger 1993 et 1995 .

<sup>34</sup> Perez R , La gouvernance d'entreprise – La découverte, 2003 p 78

<sup>35</sup> Joseph E. STIGLITZ Un autre monde, Contre le fanatisme du marché Fayard 2006 ( Making Globalization Work), p 15

<sup>36</sup> Il rappelle ici deux articles antérieurs : Bruce Greenwald & Joseph E. Stiglitz « Externalities in economies with imperfect information and incomplete markets », *Quarterly Journal of Economics*, vol 101, N° 2 mai 1986, P 229-264. Et : J. Grossman et Joseph E. Stiglitz, « On value maximisation and alternative objectives of the firm », *Journal of Finance*, vol.32, N° 2, mai 1977, p 389-402.

<sup>37</sup> Joseph E. STIGLITZ (2006), o.c. p 20.

<sup>38</sup> ibid. . note p 396, Reprise des apports de l'article de Grossman & Stiglitz,1977.



Ainsi, tant que l'on est en situation d'information imparfaite ou d'asymétries d'information, la gouvernance d'entreprise orientée actionnaire ne conduit nullement à l'efficacité, tout au moins pas à une efficacité pour tous, mais seulement pour certains... Pour ce faire, il serait nécessaire d'instaurer des dispositifs de régulation et d'arbitrage légitimes, donc encadrés par les Etats<sup>39</sup>. Mais avec la mondialisation, une situation paradoxale émerge : elle appelle de « nouvelles tâches pour les Etats mais réduit leur capacité à les faire (...) la mondialisation suscite le besoin d'actions collectives fortes, mais les institutions qui pourraient les mettre en oeuvre restent à créer.(...)(car) la mondialisation économique est allée plus vite que la mondialisation politique. »<sup>40</sup>. Entre la gouvernance d'entreprise et la mondialisation économique, il existe donc un gap, une impossibilité de réguler les comportements d'acteurs de plus en plus puissants.

« Les Etats nations ne sont plus les acteurs uniques d'une gouvernance mondiale fondée sur la coopération internationale. L'ordre mondial obéit à d'autres principes. Ceux-ci obéissent de plus en plus à la rationalité entrepreneuriale.(...) Aux abaquages de Samuelson-Stolper conduisant à une allocation optimale des facteurs se substitue le second best des marchés imparfaits et de la concurrence monopolistique. Se pose alors avec acuité la question de la régulation de ce nouveau monde qui, laissé à lui-même, ne connaît qu'une loi : « le plus fort ramasse la totalité de la mise ».<sup>41</sup>

### **Quel rôle des multinationales dans une régulation mondiale ?**

La gouvernance orientée actionnaire a stimulé l'intégration de la production portée par les entreprises multinationales, constitutive de la mondialisation. Les débats sur la contribution des multinationales à la croissance sont incessants et l'on peut montrer que tantôt elles bénéficient aux pays hôtes, tantôt elles rapatrient leurs bénéfices et échappent ainsi aux impôts nationaux. Or les problèmes nés de la mondialisation de la production sont nombreux..Ainsi la dissociation entre producteurs et consommateurs<sup>42</sup>, l'effritement de la protection de la main d'oeuvre, les nouvelles migrations internationales<sup>43</sup>, etc.

Mais « l'idée qu'elles (les multinationales) puissent en tant que telles remédier aux problèmes qui l'accompagnent est un leurre »( Graz<sup>44</sup>, 2008). En particulier, les contrats conclus entre multinationales ne relèvent plus d'aucune justice nationale mais d'instances indépendantes contre lesquelles on ne peut faire appel auprès de tribunaux publics<sup>45</sup>. Ce type d'arrangement « correspond moins à l'état embryonnaire d'un droit global qu'à la régression de l'état de droit »<sup>46</sup>.

Les multinationales sont riches et puissantes politiquement : elles menacent les Etats dès qu'ils veulent les taxer. Leur objectif premier reste de faire des profits. La clé de leur

<sup>39</sup> Sur le rôle de l'Etat comme arbitre nécessaire au développement des marchés, cf toute l'histoire économique des pays occidentaux, en commençant par Braudel (1979) en particulier tome 3 , « les marchés nationaux » p235-330 , mais aussi Jaeger (1983) sur la période 11<sup>e</sup>-18<sup>e</sup> siècle : «généalogie de l'artisanat, p 21-93..

<sup>40</sup> Stiglitz 2006 p 54

<sup>41</sup> Charles-Albert Michalet (2005), Introduction p8, Les nouvelles régulations de l'économie mondiale,

<sup>42</sup> Par exemple lorsque le Kenya fut menacé d'un attentat terroriste : on ne produit plus, les britanniques sont privés de légumes et fruits, les travailleurs locaux sont privés de travail et de salaire....

<sup>43</sup> selon les Nations Unies, 190 millions de déplacés : 1/3 pour le regroupement familial, 1/3 pour accéder à l'emploi, 1/3 de réfugiés...

<sup>44</sup> Jean Christophe GRAZ : La gouvernance de la mondialisation - La découverte , collection Repères–ed 2008 –P 65

<sup>45</sup> cf. International Centre for Settlement of Investments disputes qui fonctionne en partenariat avec la Banque Mondiale...

<sup>46</sup> Graz, 2008, p 78

survie implique de baisser les coûts par tous les moyens, quitte à ce que les Etats paient la facture des dégâts sociaux et environnementaux. Certes, elles ont contribué à élever les niveaux de vie sur la planète, elles ont permis des transferts de technologies, elles ont apporté de l'emploi et de la croissance. Mais comme le rappelle J Stiglitz, les entreprises doivent d'abord servir leurs actionnaires, maximiser le cours de leurs actions et leurs profits. Si bien que « *la mondialisation a aggravé les problèmes créés par les mauvaises incitations dans les entreprises modernes.* »<sup>47</sup> .

Pourtant, le rôle de ces nouveaux acteurs dans la régulation s'accroît : « *Les entreprises « transnationales » contribuent de plus en plus à la production de règles et pratiques convergentes, ce qui révèle leur emprise sur la mondialisation et concurrence les régimes de coopération interétatiques* ».<sup>48</sup>

Or ces nouveaux acteurs interviennent donc en fonction de leurs intérêts propres : toutes les propositions qui mettent en avant dans la gouvernance « globale » la présence d'acteurs non gouvernementaux à côté des institutions émanant des Etats, reviennent à attribuer aux entreprises privées une fonction de régulation (légitime ?). Telle n'est pas la position de P. de Senarclens (2005) : « *En réalité, les entreprises poursuivent leur objectif, en l'occurrence le profit, et ces collaborations occasionnelles et sectorielles avec les institutions internationales et les ONG engagées dans l'humanitaire, si bénéfiques puissent-elles être, n'en font pas pour autant des organes d'une gouvernance globale légitime* ».<sup>49</sup> Dans un monde d'acteurs interdépendants, ce type de gouvernance voudrait diminuer les problèmes résultant d'actions collectives que les gouvernements sont incapables de réguler tous seuls. Ce qui reviendrait, écrit A.M. Slaughter (1997) à mêler des « réseaux de gouvernance » aussi hétéroclites qu'illégitimes : « *le résultat serait un ordre mondial dans lequel les réseaux de gouvernance globale relieraient Microsoft, l'Eglise catholique, Amnesty International, avec l'Union Européenne, les Nations Unies et la Catalogne* »<sup>50</sup> ...

Or il y a des externalités poursuit Stiglitz (2006) et « *les firmes doivent prendre en compte l'impact de leurs actes sur les salariés, l'environnement, les collectivités où elles opèrent (...), ce qui ne peut se faire qu'avec une réglementation* »<sup>51</sup> . Sans cette réglementation, les firmes n'auront aucune incitation à prendre en compte les externalités qu'elles créent... Les entreprises ont utilisé leur puissance financière pour éviter les conséquences sociales et environnementales de leurs actes... « *La responsabilité limitée a soutenu la croissance, mais avec la mondialisation, les abus ont pris une ampleur planétaire.* »<sup>52</sup>

Comment alors pallier à la déficience de régulation mondiale ? Sur quels dispositifs pourrait-on s'appuyer ? Une « gouvernance mondialisée » pourrait-elle émerger ?

Les institutions internationales constituent-elles une voie possible ? Beaucoup d'auteurs restent sceptiques. En premier lieu, parce qu'elles sont fragiles et n'ont pas jusqu'à présent jugulé les crises financières mondiales : « *Les mécanismes de régulation intergouvernementaux sont fragiles, absolument insuffisants pour affronter les grands défis économiques, sociaux et écologiques inhérents à la dynamique de la mondialisation* » constate P. de Senarclens.<sup>53</sup> En second lieu, parce qu'une « gouvernance sans gouvernement » au niveau mondial, plus qu'une utopie, ne repose sur aucune légitimité politique...

<sup>47</sup> Stiglitz 2006 o.c. p 271

<sup>48</sup> Pierre de Senarclens : La mondialisation – Théories, enjeux et débats – Armand Colin 4<sup>e</sup> édition, 2005 p 210

<sup>49</sup> Ibid. p 245

<sup>50</sup> A.M. Slaughter, « The Real New World Order », Foreign Affairs, vol 76 N°5 Autumn 1997, p 184

<sup>51</sup> J. Stiglitz, 2008, o.c. p 264

<sup>52</sup> ibid. p 265

<sup>53</sup> P. de Senarclens, 2005, o.c. p 243

## Peut-on parler d' une « gouvernance » de la mondialisation ?

Une gouvernance en l'absence de gouvernement peut-elle s'imposer ? Que pourrait-être une gouvernance mondiale ?

Christian Chavagneux (2002) reprend la définition de Pascal Lamy de la gouvernance comme « *l'ensemble des processus par lesquels des règles collectives sont élaborées, décidées, légitimées, mises en oeuvre, contrôlées et permettent de promouvoir une économie mondiale porteuse d'ordre, de justice, de liberté et d'efficacité* ». <sup>54</sup> Mais il est clair que cette définition de la gouvernance mondiale est idéologique : elle suppose une autorité légitime, qu'elle soit charismatique, traditionnelle ou rationnelle comme aurait dit Max Weber. De quelle sorte de légitimité pourrait donc se doter une « gouvernance mondiale »? La réponse ne va pas de soi !

On peut ici évoquer le point de vue de Jean-Christophe Graz : « *la gouvernance est mobilisée* » à des fins qui excluent le type de souveraineté politique des démocraties modernes » <sup>55</sup>.

Ou encore celui de P. de Senarclens : « *Le discours sur la gouvernance contribue à légitimer le désordre établi : la gouvernance véhicule l'idée que les gouvernements n'ont pas le monopole de la puissance légitime, que d'autres acteurs peuvent maintenir l'ordre et participer à la régulation économique* » <sup>56</sup>.

Dans les approches mettant en avant une « gouvernance globale » mêlant acteurs publics et acteurs privés, tous les acteurs de la scène internationale sont englobés dans un grand flou, sans hiérarchiser leur rôle sur les systèmes de régulation. Il s'ensuit d'une part une valorisation naïve des acteurs non étatiques dont nous avons vu (au moins concernant les entreprises multinationales) que leurs intérêts ne se confond pas avec « l'intérêt général ». Mais d'autre part, la politique ne se résume pas à la gestion des interdépendances économiques et sociales et il est illusoire de penser les systèmes de régulation en évacuant les rapports de pouvoir.

Selon P. de Senarclens (2005), la nébuleuse des milieux d'affaires prend une autonomie grandissante à l'égard des pouvoirs publics, elle fonctionne selon ses propres règles, comme en état d'apesanteur par rapport aux lois de la cohésion sociale, de la justice distributive, du bien commun. Mais « *il n'y a pas d'ordre politique harmonieux si les conditions élémentaires d'équité, de justice, d'intégration sociale ne sont plus respectées...La mondialisation comprend actuellement l'essor d'une idéologie utilitaire où le profit devient la mesure du succès de toute activité humaine, ce qui a pour effet de déconsidérer les valeurs et projets échappant à cette logique aussi bien que les institutions contribuant à l'intégration politique qui sont fondées sur des principes de justice, d'égalité et de respect des droits de l'homme* » <sup>57</sup>.

C'est pourquoi la défense d'un ordre mondial inspiré des principes universalistes des Nations Unies impliquerait non seulement des réformes profondes de l'architecture et du fonctionnement des institutions internationales, mais surtout elle exigerait de poser en termes nouveaux « *la problématique de la légitimité politique, à savoir qui est en droit de commander, selon quelles modalités, en se soumettant à quel contrôle et dans le cadre de quelle structure de participation politique* ». <sup>58</sup> Les Etats, conclut cet auteur, devront prendre des mesures pour entraver la concentration du pouvoir économique dans la sphère des

<sup>54</sup> C Chavagneux, « la montée en puissance des acteurs non étatiques » in Pierre Jacquet et al, la gouvernance mondiale, rapport de synthèse, Paris, la documentation française- conseil/analyse économique, 2002 p 234..

<sup>55</sup> Graz, 2004, p40

<sup>56</sup> P. de Senarclens, 2005, o.c. p 243-244.

<sup>57</sup> Ibid. p 257

<sup>58</sup> Ibid. p 259

banques et des entreprises transnationales et interdire les avantages tirés de l'évasion fiscale, ils devront harmoniser leur législation fiscale et sociale pour endiguer les effets déstabilisateurs des mouvements de capitaux à court terme et de certains nouveaux instruments financiers<sup>59</sup>... « *Le paradigme économique dominant n'a pas d'avenir, puisqu'il ne prend pas en compte les coûts écologiques et sociaux des modes actuels de production et de consommation* »<sup>60</sup>.

Ainsi, la Nouvelle Economie Institutionnelle justifie la gouvernance d'entreprise « orientée actionnaire ». Les marchés financiers deviennent alors les arbitres des décisions de stratégie industrielle et le court terme devient l'horizon des décisions managériales. Or, comme le démontre la crise actuelle, il n'y a pas de véritable régulation des marchés mondialisés : leurs mécanismes sont loin d'être stabilisateurs. Réformer les institutions internationales pour réguler les marchés mondiaux autrement que dans l'intérêt des plus puissants semble aujourd'hui à la fois nécessaire et impossible. Sans doute peut-on entrevoir d'autres modèles de gouvernance d'entreprise en émergence. Il n'est toutefois pas certain qu'une meilleure régulation des marchés mondiaux soit une question de gouvernance, mais plutôt une question de Gouvernement (s ?) ...

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<sup>59</sup> Mesures qui ne se limitent donc pas à l'encadrement des bonus de traders ni à la levée du secret bancaire...

<sup>60</sup> Ibid. 260 . Cf. également N. Klein, la stratégie du choc, la montée d'un capitalisme du désastre, Leméac/Actes sud, 2008. Ou encore John Braithwaite & Peter Drahos : *Global Business Regulation*, Cambridge University Press, 2000.

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# ***THE CONTRIBUTION OF THE 3RD SECTOR TO A POST CRISIS GLOBALIZED GOVERNANCE***

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## **Abstract**

In 2008, the global crisis came to question the sustainability of a way of development exclusively based on the market sector. As a result, the world, through the states and governments is now heading for a new globalized governance. The third sector would naturally be expected to play an important part in this post-crisis globalized governance. The problem is that the third sector is now, itself, from the inside, at risk of becoming a market made of businesses just like the others. This article reviews the economical, social and political part traditionally played by the third sector in our societies, then examines the dangers of the very popular “social entrepreneurship” paradigm: a new means for efficiency and independence but also a means to new ends. Finally, this article explores different solutions to save the third sector: a coalition of the members of sector, help from the state for small non-professionalized non profit organizations and participation within a balanced new globalized governance. This article addresses these issues through many examples.

Key Words: Globalization, Governance, Non Profit Organizations, Third Sector, Social Entrepreneurship

# The Contribution of the Third Sector to a Post Crisis Globalized Governance

Patrick Valéau & Frédéric Annette

## Introduction

- Globalization is often defined as a process of increasing the connectivity and interdependence of the world's markets and businesses (Johnes, 1995).
- Thus , globalization can be seen as an expansion of the Market Sector
- Up until 2008, the Public sector (international institutions, the states, their government and the local authority) had been encouraging this expansion by promulgating laws to restrain its own prerogatives in order to give free rein to the market.
- In 2008, the global crisis came to question the sustainability of this form of development.

# A globalized crisis leading to new globalized governance

- The global crisis has proved the risk of contradiction between the optimization of economic development and the development of the common good
- As a result, the world, through its states and governments, is now heading for a new globalized governance.
- One of the main aims of this governance will be to regulate, in other words, to keep a minimum of control over businesses in the market sector
- This governance will reintroduce into debates and decision making all the other stake holders. From now on, they should be able to give their point of view about what should be done and decide for a fait and sustainable development i.e. for the good of humanity.

## The third sector A precious stakeholder

### third sector : Non Profit Sector

- Beyond its economic contributions, the third sector has always played the part of a opposing force, representing the people and defending the common good with, and sometimes, against market and public sectors
- In the 90', third sector counter power took the form of the alter-globalization movement
- The third sector would naturally be expected to play an important part in this post crisis globalized governance.
- The problem is that the third sector is now, from the inside, at risk to become a market made of businesses just like the others



# Plan

## **1. The third sector**

- 1.1. Economical weight
- 1.2. Social weight
- 1.3. Political weight

## **2. Is the third sector in danger ? (The threat of the social entrepreneurship paradigm)**

- 1.1. Social entrepreneurship as a means
- 1.2. A means to an end
- 1.3. Just another market

## **3. Recommendations for saving the third Sector in a New Global Governance**

- 1.1. Federating the non profit networks
- 1.2. A little help from states
- 1.3. Toward an tripartite governance ?

**Conclusion : working together ?**

# 1. The third sector

## 1.1. Economical weight

Salamon and Anheier (1997) defined Non Profit Organizations as:

- organized i.e. with an institutional existence
- private i.e. separated from the public sector
- non-profit distributing
- self-governing i.e. having a board of their own to define their orientation
- voluntary : i.e. involving, to some extent, voluntary donations or voluntary unpaid workers, even if this only concerns members of the board.

In the USA : 2 000000 NPOs

= 1,3 trillion \$ ; 8,11 % of the wages ; 26% of the US population volunteer  
(source : NCCS, 2007)

In France : 1 100000 NPOs

= 59 billion € ; 1 050 000 jobs (EFT) ; 13 million volunteers  
(source : Tchernonog, 2006)

## 1.2. Social weight

More difficult to quantify...

More difficult to acknowledge

Laville & Sainsaulieu (1997)

- Direct service - often given
- Job created for people excluded from other organizations
- Social bonds reinforcing community
- Equal Opportunity through « Popular » education
- Etc.

## 1.3. Political weight

The third sector stands as a Counter Power (Dahl, 1961 ; Cooperrider, 1991)

- empowering the citizens,
- a voice for the minority
- a force to propose
- A force to protest

Some NPOs advocate the inclusion of minor changes in the actual model of development

Others propose alternative model of development requiring major change

All of them work for a « better world » - third sector as a agent of change

A heterogeneous and non organized sector by nature

A divided army (ex. abortion, guns ; ex. alter-globalization 10 years ago)

A world of creativity and freedom

**Unmanageable / untamable**

## 2. Is the third sector in danger ?

*The threat of  
the Social Entrepreneurship Paradigm*

## 2.1. Social entrepreneurship as a means

### A means of efficiency

#### *Social Entrepreneurship*

- The use of entrepreneurial behaviors for social purposes (Hibbert & al, 2002)
- An attempt to solve social problems efficiently and creatively (Wallace, 1999 ; Johnson, 2000 ; Hibbert & al, 2002 ).
- An assessment of performance in attracting and retaining human resources, fundraising and finance in a non profit sector often viewed as inefficient (Dees, 1998).

Economic development and social purpose as “two bottom lines”  
(Townsend & Hart, 2008)

## A means of independence

- A means to reduce the dependency on philanthropy and governmental subsidies (Boschee, 2001 ; Brunham, 2002)
- Money must be « really » earned (Brunham, 2002)

## A means of getting closer to business

- Social entrepreneurship narrows the borders between the profit and the non profit sector. (Wallace, 1999)
- social entrepreneurs create new models of organizations (Wallace, 1999)
- Hybridization is a fundamental part of the innovations promoted by the social entrepreneurship approach (Johnson, 2000)

## 2.2. Social Entrepreneurship : A means to an end

### Towards an optimization of productivity

The social entrepreneurship approach to non profit organizations constitutes a major change of management paradigm  
(Valéau, 2003)

- From a management using arbitration to solve the contradictions coming from the inclusion of multiple goals and values
- To a management focused on optimization (maximization of the services produced with given resources / minimization of the resources used for a given service produced / maximization of the resources)

# Toward a professionalization

The reign of the managers  
The end of the militants

A reversed governance  
where the executive director  
takes over the volunteer board

A fundamental change in the management  
and governance paradigm

## 2.3. The third sector Just another market ?

# A change in the business model

Wasn't, the third sector, supposed to escape the rules of the market to correct some of its imperfections ?

From state subsidies to donation : the risk of demagogy ?

From donation to sale : the risk of business

3 different business models  
changing the NP field of opportunity

# The end of a social model

The social entrepreneurship paradigm :  
an Icarus paradox (Miller, 1992)

Losing the social essence of NPO :  
social bonds, community, solidarity, etc.



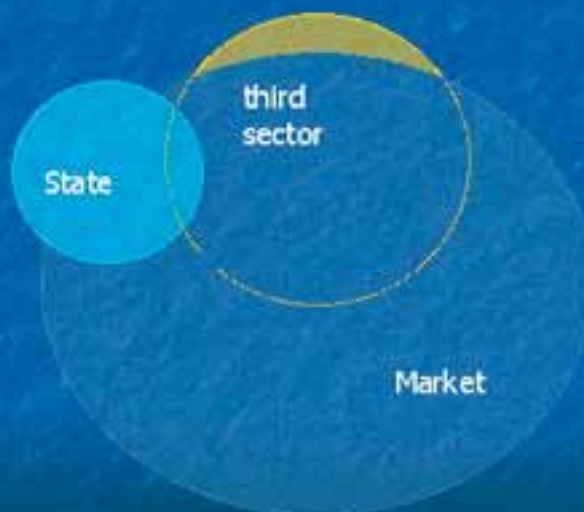
# The end of a political model

The third sector is losing its ability to challenge the other sectors to defend the common good

Losing its Know-how and worth

Losing its convictions and motivation

## A « marketization » of the third Sector



## 3. Can We Save the Third Sector ?

### 3.1. A coalition of the members of the third sector

Heterogeneous by essence  
But united to defend the common essence of the third  
sector

United for advocacy  
United to mutualize resources  
United to share competencies

Alliance between big professionalized NPOs  
and nascent militant NPOs

Ex. Spin-off to defend socio-diversity of the third sector

## 3.2. A little Help from the State

Subsidies to finance the common good

Requires an inclusive definition of social utility  
Not only services, but also social bonds, social dynamics,  
sustainable development and living democracy

Helping the small non professionalized non profit  
organizations a priori less efficient, but socially useful

Example of the "1000 euros" projects

## 3.3. A New Equilibrium A New Balanced Globalized Governance



# Conclusion

Seizing the opportunities  
opened up by the 2008 crisis

A common consciousness that the market alone  
cannot guaranty a sustainable and fair development

States and governments are changing their position  
NPOs should be considered from a new perspective

The third sector may even be able extend some of its  
values and practice to the other sectors

## Working together ?

Projects involving organizations from the 3 sectors  
NPOs, administrations and businesses  
Working together respecting each other's differences

Working together  
for a sustainable local development  
a common good...

Ex. New experimentation / local development  
all over the world

# ***GOVERNANCE: AN APPROACH IN TERMS OF POWER AND COUNTER POWER***

GARDODY Jérôme-Benjamin (FACIREM)

## **Abstract :**

Traditional systems of corporate governance defend the interests between shareholders by limiting the opportunist behaviors of the CEO, the latter generally being considered as the unique initiators of financial abuse. This approach does not offer an efficient and effective solution since financial scandals continue to shake the economic sphere. So, we have to question this paradigm approaching the leader as a passive actor whose behaviors can be determined by control mechanisms (surveillance and incentive measures) in a unilateral relationship. In this sense, the theory of implanting shows us the incapacity of being able to force the general manager to supervise the firm according to the interests of the shareholders by integrating active behaviors of the leader. In fact, these behaviors are not the only causes of existing abuses. Indeed, the latter can be the consequences of strategic decisions of shareholders who have, in theory, the decision-making authority, so sacrificing managerial values and the viability of the company.

This brief observation reveals a dynamic relational field in which each actor, by these behaviors, may impact the situation of another and the results of the company. These interactions will be possible through the use of power and counter power by each person. So, these concepts allow the shareholders and the manager to establish strategies to reach their personal goals. From there, it can be supposed, that by looking for the maximization of their interests, the relations of power can be allowed to neutralize and reduce the risk of sacrificing organizational values.

## **Keywords :**

Governance, incentive and surveillance measures, power and counter power.

## **Résumé**

Dans de nombreuses recherches, les systèmes classiques de gouvernance d'entreprise par action, ont pour principal objectif la conjonction d'intérêt entre actionnaires et dirigeants (salariés) afin notamment de limiter les comportements opportunistes de ces derniers. Que cela soit dans la logique actionnariale ou partenariale, il est mis nettement en évidence la nécessité pour le conseil d'administration de discipliner le dirigeant, alors considéré tel l'unique instigateur des dérives financières.

Cette acception n'offre en aucun cas une solution efficiente et efficace dans la mesure où les scandales financiers ne cessent de faire trembler la sphère économique et boursière. Ainsi, cela doit remettre en cause ce paradigme initial approchant le dirigeant tel un acteur passif dont le comportement peut être déterminé par des mécanismes de contrôle utilisés (mesures de surveillance et incitatives notamment) au sein d'une relation unilatérale. Dans ce sens, la théorie de l'enracinement suppose illustre cette incapacité contraindre les équipes

managériales à gérer la firme conformément à l'intérêt des actionnaires (Alexandre et Paquerot, 2000) et intègre un comportement actif des dirigeants. Mais ces actes déviants ne sont pas les seules causes des dérives existantes. En effet, ces dernières peuvent également être entraînées par les erreurs stratégiques des actionnaires, possédant théoriquement le droit décisionnel, spoliant ainsi les rentes managériales et la viabilité de l'entreprise.

Ce bref constat fait donc apparaître un champ relationnel dynamique au sein duquel chaque acteur par ces comportements peut impacter la situation de l'autre ainsi que les résultats de l'entreprise. Ces interactions ne seront rendues possibles que par l'utilisation de pouvoirs et de contre-pouvoirs par chaque acteur. Ainsi, ces notions permettront respectivement aux actionnaires et au dirigeant d'instaurer des stratégies afin d'atteindre leurs objectifs personnels. Partant de là, il peut être supposé qu'en recherchant la maximisation de leurs intérêts, le rapport de pouvoir permet de neutraliser et de diminuer le risque de spoliation des rentes organisationnelles.

**Mots clés :**

Gouvernance dissociée, mesures de surveillance et incitatives, pouvoir et contre-pouvoir.

# ***La gouvernance dissociée : Une approche en termes de pouvoir et de contre-pouvoir***

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## **Résumé**

Dans de nombreuses recherches, les systèmes classiques de gouvernance d'entreprise par action, ont pour principal objectif la conjonction d'intérêt entre actionnaires et dirigeants (salariés) afin notamment de limiter les comportements opportunistes de ces derniers. Que cela soit dans la logique actionnariale ou partenariale, il est mis nettement en évidence la nécessité pour le conseil d'administration de discipliner le dirigeant, alors considéré tel l'unique instigateur des dérives financières.

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## **Mots clés :**

Gouvernance dissociée, mesures de surveillance et incitatives, pouvoir et contre-pouvoir.

## **Introduction**

Au sein du contexte économique actuel, les relations entre les pratiques de gouvernance et les résultats dégagés par les sociétés d'actions revêt un intérêt plus fort que jamais. En effet, la crise internationale en cours, au delà d'une refonte des vertus financières, amènera tôt ou tard les instances de la gouvernance d'entreprise, à s'interroger sur les pratiques de leurs dirigeants. Ce questionnement n'est cependant pas nouveau, les théories de la gouvernance s'attelant, depuis toujours, avec plus ou moins de réussite à offrir une vision omnisciente aux actionnaires sur les pratiques de leur directeur général. Ainsi la théorie de l'agence (Jensen et Meckling, 1976) mettant en lumière les conflits d'intérêts entre ces deux parties, intègre une perspective de gestion antinomique aux actionnaires (Berle et Means, 1932), amenant les systèmes de gouvernance à s'imprégner, d'une dimension disciplinaire destinée à orienter et déterminer les comportements des dirigeants par l'intermédiaire notamment de mesures de surveillance et incitatives (Charreaux, 1997). Au sein de ce contexte spécifique, le pouvoir et le contre-pouvoir apparaissent tels des éléments fondamentaux structurant cette relation en déterminant notamment le potentiel d'action et d'influence de chacun. C'est à travers le premier que les actionnaires pourront s'assurer de l'efficacité de leur système et c'est par le second que le directeur-général pourra ne pas subir passivement ces mécanismes hiérarchiques et entretenir une relation dialectique.

Nous choisirons comme champ d'analyse, une gouvernance dissociée permettant aux actionnaires d'opter pour un système détachant la fonction de directeur général (salaire) de celle d'actionnaire du conseil d'administration afin de renforcer leurs prérogatives de contrôle. Nous considérerons ici cette situation, tel un champ relationnel dynamique sensible aux interactions interpersonnelles. Ainsi, nous adopterons la perspective originale d'une double relation d'agence au sein de laquelle chaque individu pourra suivre des stratégies opportunistes assimilant celles de l'autre partie. Dans ce sens, notre objectif sera de démontrer, l'inefficacité des approches « classiques » de la gouvernance d'entreprise pour éviter les effets pervers de cette dimension tout en instaurant une ouverture paradigmatique vers l'utilisation existentielle, efficace et simultanée du pouvoir ainsi que du contre-pouvoir au sein de la relation, cela aussi bien d'un point de vue individuel qu'organisationnel.

Nous commençons, dans la première partie, par un examen des apports théoriques des principales doctrines de la gouvernance. Cette partie aura notamment pour vocation de cerner la vision restrictive des approches disciplinaires, exclusivement tournée vers la recherche de l'omniscience des actionnaires, usant pour cela de mécanismes de régulation. La deuxième partie analysera le rôle fondamental du pouvoir assurant l'efficacité des dispositifs de contrôle du dirigeant tout en soulevant le fait que ce dernier ne restera pas démuné grâce au contre-pouvoir. Dans la troisième partie, nous ferons valoir l'utilité d'une approche relationnelle réciproque et double d'agence, dans un contexte dynamique sensible aux interactions.

## **1. Les théories classiques de la gouvernance d'entreprise**

### **1.1. La théorie de l'agence**

Afin de cerner la perspective conceptuelle au sein de laquelle s'inscrit cette étude, il paraît pertinent de poser comme base de notre recherche, les apports de la théorie de l'agence,



doctrine référence en ce qui concerne l'étude de la gouvernance. Pour cela nous effectuerons une brève exposition des contributions de ce courant de pensée.

La relation d'agence est tout d'abord définie, par Jensen et Meckling (1976) tel un contrat par lequel une personne, le principal, engage une autre personne, l'agent, afin d'exécuter en son nom une certaine tâche, impliquant la délégation d'un certain nombre de prérogatives. En effet, partant de la théorie transactionnelle de l'action (Dewey et Bentley 1949) mettant en évidence la nature partenariale de l'économie, la structure de la gouvernance s'inscrit dans une logique, séparant les individus propriétaires (les actionnaires) de ceux prenant effectivement les décisions (les dirigeants) (Milgrom et Roberts 1992 ; Coriat et Weinstein 1995). C'est dans ce contexte de décentralisation des droits décisionnels et de gestion vers ceux qui détiennent la connaissance et le savoir-faire (Fama et Jensen, 1983 ; Gomez 1996), que nous nous intéresserons plus précisément aux relations établies entre ces deux catégories d'individu. Comme soutenu au sein de la théorie des droits de propriétés (Alchian et Demsetz 1972), cette allocation décentralisée ne s'accompagne pas des droits liés à l'aliénabilité, cela apparaissant alors telle une source de conflits, due à la désagrégation des intérêts (Parrat 2003). Donaldson (1963) puis Mintzberg (1988) illustrent ces apports, en décrivant l'opposition entre d'un côté les objectifs de croissance du dirigeant et ceux financiers des propriétaires de l'autre. Berle et Means (1932) s'intéressèrent aux effets de ces divergences et conclurent à une gestion antinomique aux actionnaires, cela malgré des engagements contractuels sur lesquels repose cette relation. Nous nous trouvons donc dans une situation où les agents auront à effectuer un choix entre maximiser leurs propres intérêts et l'obligation d'honorer leurs engagements. Adoptant une perspective individualiste méthodologique au sein de laquelle les individus sont centrés sur l'appât du gain (Hirsch, Friedman, Koza 1990), la théorie de l'agence, répond au précédant dilemme, en soutenant deux hypothèses comportementales (Jensen et Meckling 1976), la première supposant que les individus chercheront à maximiser leur propre utilité, la seconde présumant qu'ils seront susceptibles d'adopter pour cela des comportements opportunistes (Charreaux, Couret, Joffre et Alii 1987). Ces comportements étant aussi bien pré-contractuels (sélection adverse) que post-contractuels (aléa moral) (Jensen et Meckling (1976) ; Akerlof (2001). Dès lors, dans la même optique que la théorie des coûts de transactions initiée par Coase (1937) et reprise par Williamson (1988), celle de l'agence sous-tend que ces rapports conflictuels, entraîneraient, des coûts altérant les gains issus d'une éventuelle coopération : coûts de surveillance, d'obligations et d'opportunités (Jensen et Meckling 1976). Ces coûts, provenant en partie, de la difficulté de contrôler parfaitement les efforts des agents, du caractère asymétrique de l'information et de l'impossibilité de rédiger des contrats complets (Mintzberg 1988, Donaldson 1963).

Partant de ces contributions, et tournant notre analyse plus particulièrement vers la situation post-contractuelle relative au respect des engagements et à la pérennisation l'équilibre relationnelle créatrice de valeurs pour l'entreprise, nous nous intéresserons à la question du contrôle devant permettre aux actionnaires de s'assurer que les comportements du dirigeant ne deviennent pas opportunistes et nuisibles. Certaines approches apportent notamment des éléments de solution, liés à la réduction ou l'annihilation des incertitudes et des coûts précédemment cités, en avançant un certain nombre d'alternatives devant permettre de conserver la relation de coopération (Williamson 1988). Il nous est donc nécessaire de les aborder présentement.

## **1.1 Dimension actionnariale et partenariale des systèmes de gouvernance : des**

## **solutions disciplinaires**

Comme abordée précédemment, la théorie de l'agence est largement associée à l'étude de la relation entre actionnaires et gestionnaires (Berle et Means 1932). Se faisant, les principales approches de la gouvernance qui en découlent, s'inscrivent dans un paradigme fonctionnaliste de l'efficience et reposent toutes, plus ou moins explicitement, sur des modèles relationnels particuliers devant assurer la pérennisation de la rente organisationnelle (Charreaux, 1998). Cette dernière étant en partie subordonnée à un équilibre relationnel spécifique, c'est-à-dire une situation de coopération, supposant la coordination des actions en un processus plus ou moins réglé et finalisé (Kotarbinsky 1955). Au sein de cette partie, il nous importera donc, d'approcher les principales doctrines de la gouvernance, défendant chacune des situations différentes d'équilibre et utilisant des procédés distincts devant permettant la pérennisation du niveau optimal de rente.

D'abord en reprenant les contributions de Jensen et Meckling (1976) introduisant l'idée d'un contrat par lequel un principal, engage un agent, pour exécuter en son nom une tâche, il est entendu que la relation de coopération établie s'appuierait, essentiellement sur une vision « contractualiste » définissant les droits et les obligations de chacun. En effet, ce contrat se définit, idéalement, dans cette acception comme un accord de volontés tendant à créer une obligation au sens de Reynaud (1989), c'est à dire une règle reposant sur des engagements mutuels favorables à l'émergence d'actions collectives. Autrement dit, les parties aboutiront de manière autonome et intentionnelle à un accord, spécifiant notamment, outre la tâche à accomplir pour le compte des actionnaires, les modalités de rétribution du dirigeant. En ce sens, ces contrats apparaîtraient donc tel un système relationnel équilibré, reposant, dans un paradigme utilitariste, sur la maximisation réciproque des fonctions d'utilités pérennisant le respect des engagements (Charreaux et Pitol-Belin, 1985). Cette approche basée sur l'accord n'apparaît toutefois pas immuable, laissant planer le spectre de l'opportunisme du dirigeant. La seule possibilité que ce dernier puisse agir selon ses propres objectifs suffit à inquiéter les principaux (Parat 2003) les incitant donc à accompagner la perspective contractuelle de mécanismes de régulation.

En effet, les problématiques nées du démembrement de la fonction de propriété et de gestion, ont amené les théories à transférer leur attention de la façon dont les dirigeants gouvernent vers la manière dont ils sont gouvernés (Charreaux, 1998). Autrement dit, afin de prévenir et de réduire les dysfonctionnements ainsi que les coûts engendrés par les comportements déviants du gestionnaire, les actionnaires associeront à la dimension contractuelle initiale, des mécanismes de contrôle disciplinaires et discrétionnaires (Neveu, 2000). C'est dans ce contexte précis que nous nous intéresserons aux courants de pensées de la gouvernance d'entreprise que sont l'approche actionnariale, originelle, et celle partenariale, plus récente. La première modélisation, soutenant le rôle majeur de l'investissement financier dans la production de la valeur organisationnelle, a pour principal objectif de sécuriser la rentabilité de ce facteur exclusif de production (Shleifer et Vishny, 1997), et par conséquent de défendre les intérêts du principal. En outre, cette approche définit donc le champ de la gouvernance d'entreprise, comme l'étude des procédés par lesquels les principaux garantiront la rentabilité de leurs investissements (Shleifer et Vishny, 1996). Ainsi, cette perspective actionnariale conduit à ne s'intéresser qu'aux mécanismes permettant d'aligner les intérêts des dirigeants, sur ceux des actionnaires. Selon Fama (1980), s'intéressant particulièrement à la firme managériale, le système de gouvernance comporterait à la fois de mécanismes « internes » à l'entreprise, mis en place intentionnellement par les actionnaires, et « externes », issus du fonctionnement spontané des marchés. Nuançant cette taxinomie initiale, Williamson (1991)

puis Charreaux (1997) introduisirent respectivement, au-delà des précédents critères retenus, des notions d'intentionnalité et de spécificité.

Au sein de cet agencement illustrant la logique actionnariale, nous retiendrons volontairement comme élément de notre étude, les mesures de surveillance directe des dirigeants par les actionnaires et plus précisément celles émanant du conseil d'administration. La motivation de ce choix provient du fait qu'à la suite de dérives de gestion au cours de l'histoire, corroborant la vision conflictuelle de la gouvernance, il est apparu, de manière récurrente, une motivation grandissante des pouvoirs publics et des principaux à renforcer la surveillance des dirigeants, notamment en préconisant un plus grand activisme du conseil d'administration (Charreaux, 1998). Retenant la description architecturale de l'allocation des droits décisionnels à l'intérieur de la firme (Fama et Jensen 1983), nous définirons comme mécanismes de surveillance directe tout dispositif ayant pour objectif de ratifier les initiatives des dirigeants et de vérifier leur bonne mise en œuvre, autrement dit d'observer régulièrement la gestion de l'entreprise, permettant ainsi aux actionnaires d'exploiter une information fiable. Ces mécanismes peuvent prendre plusieurs formes : cabinet d'experts ou auditeurs (internes ou externes), contrôle direct des administrateurs (internes ou externes)...et motiver des sanctions liées à l'indiscipline, par exemple la révocation.

Important un paradigme différent, dans l'optique d'élargir l'approche précédente jugée trop « restrictive » (Rouleau, 2007), la doctrine de la dimension partenariale de la gouvernance soutient la thèse d'une création de rente à caractère synergique intégrant pour cela l'ensemble des parties prenantes concourant au fonctionnement de la firme (Charreaux, 1998). En effet le capital investit requiert une organisation pour que l'objectif de valorisation soit atteint. C'est ainsi que dans ce contexte, l'accent sera mis sur la production de rente organisationnelle et globale et non uniquement actionnariale et financière. Cet élargissement théorique trouve dès lors son origine dans la redéfinition de la notion de propriétés au sein de laquelle il est possible d'étendre ce statut à l'ensemble des participants du système productif notamment dans notre cas aux dirigeants (Hill et Jones, 1992). L'attention est désormais portée sur ces derniers, qui deviennent des éléments incontournables de la gouvernance, conduisant Castanias et Helfat (1991) à s'interroger sur l'importance de la rente managériale. En extrapolant, il est donc envisagé, une relation réciproque de dirigeant (principal) à actionnaires (agents) selon laquelle le premier louerait ses capacités managériales aux seconds, introduisant donc une double relation d'agence permettant à chaque acteur d'être considéré, successivement, comme le principal et l'agent (Charreaux, 1998).

Ainsi, l'approche partenariale propose également sur des mécanismes de contrôle spécifiques induisant des réductions de coûts. Partant des apports de Jensen et Meckling (1976) dévoilant que tout dirigeant, exclu du statut de créancier résiduel, aurait intérêt à utiliser une partie de la richesse de la firme pour ses satisfactions personnelles, la viabilisation de la relation de coopération ne reposerait que sur la recherche de la satisfaction des intérêts de tous les acteurs participant à la création de valeur (Charreaux, 1997). Dans ce cadre, l'utilisation des mesures incitatives semble apparaître comme une solution de contrôle pertinente, intégrant une logique privilégiant le rapport individuel à l'organisation en recherchant un niveau de congruence avec les besoins psychologiques et matériels des acteurs (Maslow, 1954 ; Argyris, 1964). Plus précisément, il est soutenu que la coopération serait atteinte si les dirigeants obtenaient, au même titre que les actionnaires, une partie des droits de décisions résiduels et d'allocation de la rente produite (Zingales, 1998 ; Charreaux, 2000). En effet, un dirigeant à qui on attribuerait un pouvoir de décision, de façon à mieux exploiter ses connaissances serait

d'autant plus incité à fournir des efforts s'il perçoit une partie de la rente organisationnelle sous forme de « surrémunération » quelle qu'en soit la forme (Naciri, 2006).

Des différences conceptuelles indéniables demeurent entre les approches actionnariales et partenariales, notamment en ce qui concerne la description des systèmes de gouvernance permettant à la fois une coopération efficace et la production optimale de rentes. Malgré ces divergences, et hormis le fait qu'elles intègrent la conception contractuelle de la firme, elles proposent toutes deux une approche disciplinaire de l'efficacité dans la mesure où il est préconisé aux actionnaires de surveiller ou d'inciter les dirigeants afin d'éviter que les gains issus de la coopération ne soient dissipés. En effet, une fois évoquées la divergence d'intérêts, et la possibilité de comportements opportunistes, l'attention est portée principalement à l'identification des mécanismes permettant de discipliner le dirigeant (Charreaux, 1996). Ici, disciplinaire signifiera, que les altérations engendrées par les relations d'agence ne pourront être résolues autrement que par une intervention du principal, abordant donc la coopération tel le résultat d'une relation mécanique, de cause à effet au sein de laquelle cet unique acteur, instrumentaliserait des dispositifs de régulation afin de déterminer et conditionner les choix et comportements de l'agent.

## **2. La gouvernance dissociée : Une approche relationnelle dynamique**

### **2.1. Le pouvoir : Un concept essentiel de l'approche disciplinaire de la gouvernance**

Au sein de cette partie nous nous situons dans une perspective considérant le pouvoir tel un support essentiel, pour la compréhension de la structuration des systèmes de gouvernance analysés précédemment. Autrement dit, nous soutenons l'hypothèse que la relation entre actionnaires et dirigeant dans nos systèmes de gouvernance post-contractuels, prendrait la configuration d'un rapport de pouvoir. C'est ainsi que Louart (1996) analyse ce concept comme un mode d'échange fondamental entre les individus, dans le cadre de leurs interactions. De même Crozier (1977) aborde le pouvoir tel un élément existentiel structurant les interrelations : « *on ne peut pas agir sans pouvoir* ».

Il existe différentes définitions du pouvoir découlant de divers paradigmes. Au sein de notre perspective disciplinaire, il nous semble pertinent d'aborder ce concept par ses manifestations, tel la capacité d'influer sur le comportement d'autrui. Nous pouvons reprendre en ce sens la description de Dahl (1957) : *A a du pouvoir sur B dans la mesure où il peut obtenir de B que celui-ci fasse des choses qu'il ne ferait pas autrement* ou celle de Weber observant le concept de pouvoir dès qu' *un individu accomplit conformément à la volonté d'un autre individu, une action qu'il n'aurait pas accomplie spontanément*. Cette notion s'illustre par « *une capacité à orienter la conduite de l'autre, à l'influencer ou à la diriger* » (Crozier 1977). Partant de ces apports, le pouvoir entraînerait donc, une dimension instrumentale, devenant un « outil » permettant à un individu d'atteindre ses objectifs. Cette première approche coïnciderait précisément avec la logique mécanique des systèmes de gouvernances décrites antérieurement. Également, ce raisonnement sous-tend inévitablement une perspective relationnelle du pouvoir (Giasson 1977). En effet, un individu ne serait pas puissant dans l'absolu mais toujours par rapport à un autre (Rojot, 2006).

Une fois cette première approche effectuée il convient de s'interroger sur les sources du pouvoir au sein de l'acceptation disciplinaire. Partant des postulats de la théorie contractuelle de l'agence exprimant une situation de délégation, il est d'hors et déjà entendu que la relation

initiiée serait de nature hiérarchique. Le lien de subordination y émanant permettrait alors de distinguer le concept d'autorité comme première source, organisationnelle et formelle, du pouvoir de l'actionnaire. En effet, elle permettrait à ce dernier d'user des prérogatives de sélection/révocation, de coercition/récompense, et de contrôle propres à la fonction occupée (Mintzberg, 1986). Dans ce sens, la relation établie pourrait être analysée comme imposée. Mais hormis cette vision affichée, Weber (1922) et Chester Barnard (1938) approchèrent ce rapport hiérarchique sous un angle différent, le décrivant comme l'aptitude à faire observer volontairement des ordres, introduisant ainsi le terme de légitimité. Burke (1991) soutenant ainsi l'idée qu'« *il n'est jamais vrai qu'un acteur, par le seul fait qu'il soit supérieur, puisse obtenir ce qu'il veut* ». Dans ce cadre, il est entendu explicitement que la simple position hiérarchique ne suffiraient pas à déterminer le comportement du subordonné, du fait qu'il n'y aurait d'autorité que consentie (Weber, 1922). En ce sens l'une des conditions garantissant l'efficacité de la relation de pouvoir serait qu'au moment de prendre sa décision d'agir conformément à l'ordre, le subordonné estime qu'il n'est pas incompatible avec son intérêt personnel (Chester Barnard, 1938).

La relation de pouvoir qui donc semblait dans un premier temps contraignante et imposée apparaît désormais tel un « échange » reposant en partie sur le consentement du subordonné. Blau et Homans (1974) approfondirent cette approche et soutinrent l'idée que le supérieur hiérarchique aurait un potentiel de pouvoir seulement s'il détient des ressources désirées (financières, intellectuelles, psychologiques...) par ses subalternes. Le pouvoir changerait donc de dimension en devenant un pouvoir d'influence, c'est-à-dire offrant aux individus une contrepartie du comportement souhaitée (Weber, 1922). Les ressources désirées n'étant pas exclusivement matériels, French et Raven (1959), intégrèrent dans leur analyse, d'autres systèmes d'influence liés notamment au pouvoir d'expertise provenant de la détention de compétences spécialisées et à celui de référence, caractérisant des typologies informelles et personnelles du pouvoir. Cette analyse nous semble essentielle dans le sens où elle fait apparaître en toile de fond le concept de dépendance générant toute légitimité d'un rapport de pouvoir. En effet, il est souvent soutenu que le pouvoir est indissociable de la relation de dépendance entre celui sur qui s'exerce le pouvoir et celui l'exerçant. Emerson (1962) explique ainsi, que « *le pouvoir de A sur B est égal à la dépendance de B par rapport à A* ». Cette notion étant, premièrement proportionnelle à la valeur attribuée aux ressources en jeu et deuxièmement inversement proportionnelle à l'acquisition de ces mêmes résultats par d'autres sources.

Malgré une ouverture du champ de compréhension de la relation de pouvoir d'une approche dominée vers une dimension consentie, ces apports restent dans une optique disciplinaire dans la mesure où les systèmes de gouvernance analysent le dirigeant tel un acteur passif conditionner par la relation d'autorité légitimée ou pas.

## **2.1. Du pouvoir au contrepouvoir**

La relation de pouvoir telle approchée précédemment ne nous paraît pas immuable et se complexifie lorsqu'on y intègre les travaux plus récents introduisant de façon plus explicite la stratégie du dirigeant. Cette dernière qui suppose un comportement actif de l'agent permettrait donc de soulever l'éventualité d'une transition théorique vers un paradigme analysant la relation de coopération sous un aspect plus dynamique. En effet, les dirigeants y sont

représentés, comme des détenteurs d'influences, avec leurs propres besoins d'accomplissement, ne souhaitant en aucun cas se limiter à être des rouages mécaniques destinés à satisfaire l'organisation (Mintzberg, 1986). Partant de ces principes nous poserons donc comme postulat qu'ils ne subiront pas passivement les effets mécaniques des systèmes de gouvernance, et qu'ils seront à même d'adopter, au contraire, des comportements neutralisant les dispositifs de régulation du conseil d'administration afin d'élargir leur latitude discrétionnaire et de maximiser leurs propres objectifs (Charreaux, 1996). Nous ferons ici référence à la théorie de l'enracinement (Gharbi, 2005). Ces comportements apparaissant telle l'illustration d'un véritable contre-pouvoir des désormais pseudo-subordonnés.

C'est ainsi que, dans un premier temps, nous intégrerons une nouvelle dimension, celle de la réciprocité de la notion de pouvoir. Crozier (1977) introduit un caractère alternatif en affirmant qu'au sein de ces relations, il existe des inégalités sans que l'un soit totalement démuné face à l'autre. Partant de là, nous identifierons le concept de contre-pouvoir, tel un pouvoir se dressant face à une autorité établie. En d'autres termes, son apparition semble être dépendante de l'existence au préalable d'un pouvoir (Etzioni, 1964) et de l'existence d'une prise de conscience d'un dysfonctionnement relationnel. En outre, Etzioni (1964) affirme que chaque pouvoir établi, dès qu'il est considéré comme subi injustement suscite tôt ou tard des forces de protestation, de renversement ou de correction, de rééquilibrage venant compenser la situation. Cela soulève l'idée qu'il n'y a pas de systèmes sociaux entièrement réglés ou contrôlés et que la conduite humaine ne serait être assimilée en aucun cas au produit mécanique de l'obéissance (Crozier et Friedberg, 1977).

Quels sont donc les sources de ce contre-pouvoir face aux contrôles disciplinaires ? Partant des apports d'Emerson (1962) décrivant les relations entre pouvoir et dépendance, Kim et Fragale (2005) intégrèrent la notion d'interdépendance comme permettant l'expression du pouvoir de chacun notamment du subordonné. En effet, Pastor et Bréard (2007) soutiennent cette thèse : « *Vous dépendez d'autrui, et réciproquement* ». Dans notre cas, l'interdépendance illustrera la réunion d'acteurs distincts, qui se placent volontairement dans une situation de dépendance réciproque, dans le but de tirer de cette association un avantage personnel. C'est dans ce cadre, que Crozier et Friedberg (1977) soulèvent l'épineuse question de la dépendance du supérieur hiérarchique en important le concept de zone d'incertitude. Ce sont des zones où les activités et leur coordination ne sont pas totalement définies, autrement dit où les règles formelles sont insuffisantes (Crozier, 1977). En effet, la maîtrise d'une de ces zones serait source d'obtention d'un contre-pouvoir par le subordonné augmentant ainsi la dépendance du supérieur hiérarchique. Certaines positions procureraient ainsi plus particulièrement le contrôle de ces sources : maîtriser une compétence particulière, détenir des informations cruciales, être un intermédiaire avec l'environnement, édicter ou prescrire les règles organisationnelles.

Comment agissent-ils ? Hirschman (1970) constate qu'un membre faisant parti d'un système peut avoir deux choix fondamentaux de protestation : partir (« faire sa sortie ») ou rester et s'efforcer de changer (« protestation »). Ainsi, dans le premier cas de figure si le subordonné, estime que la relation ne lui est plus intéressante, et décide de la quitter, alors le supérieur ne détient plus aucun pouvoir et ne peut plus atteindre les résultats escomptés (Maati). Nous voyons bien, que ne serait-ce parce qu'il peut mettre fin au jeu, le subordonné dispose tout de même d'une fraction de pouvoir. Mais en réalité c'est une situation assez rare et survenant habituellement après l'échec de l'usage du second cas de figure. Pour cela nous préférerons nous attarder sur son étude, cela à travers la théorie de l'enracinement, illustrant précisément le caractère actif du dirigeant et la pertinence du concept de zones d'incertitudes. En ce sens,

Charreaux (1999) définit l'enracinement comme l'ensemble des actions que les dirigeants peuvent entreprendre dans le but d'accroître la dépendance des actionnaire afin de conserver leur poste. Avec pour objectif d'accroître le coût de leur remplacement, réduisant ainsi le pouvoir d'éviction du principal afin d'augmenter leur propre espace discrétionnaire. Cette théorie décrit donc les moyens privilégiés pour constituer ces stratégies. Dans un premier temps l'enracinement peut s'effectuer par des investissements idiosyncratiques, première forme de procédé habituellement attribuée à Shleifer et Vishny (1989) supposant qu'en réalisant des investissements qui leur sont spécifiques, les dirigeants réduisent le risque d'être remplacés. En effet, leur éviction impactant la stabilité et la viabilité de l'organisation, les dirigeants se retrouvent dans une situation où ils peuvent s'approprier une partie des rentes (Charreaux, 1996).

Dans une autre perspective, l'enracinement par l'information, comme décrit par Stiglitz et Edlin (1992), permet aux dirigeants de maximiser leur revenu et de profiter de leur avantage pour s'approprier des rentes. En effet, l'information étant un élément essentiel du bon fonctionnement des organisations, sa détention constitue une source importante de pouvoir (Pfeffer 1981; Pfeffer, Salancik 1978). Le dirigeant qui est représenté tel un acteur central par qui toutes les informations transitent (Mintzberg, 1986) dispose d'une position leur offrant la possibilité de les filtrer et mais aussi de les manipuler (Alexandre et Paquerot 2000). Leur objectif sera donc d'accroître les situations d'asymétrie informationnelle. En effet, Hirshleifer (1993) distingue trois catégories de manipulations. Autrement, la stratégie d'enracinement, peut également s'effectuer par le contrôle de ressources fondamentales (Charreaux, 1996). Nous pouvons nous référer dans ce cas aux apports de Pfeffer (1981) expliquant que le pouvoir revient aux acteurs qui apportent une ressource indispensable au fonctionnement de l'organisation et qui ne sont pas facilement remplaçables. Ainsi, les dirigeants ont d'une part, intérêt à représenter un facteur de production substituable aux ressources externes aussi bien dans le domaine intellectuel, financier, des ressources humaines que celui des réseaux de capital relationnel et social.

Un autre moyen d'enracinement de plus en plus étudié est celui des réseaux relationnels (formels et informels) développés par le dirigeant (Charreaux, 1997). Ils se basent sur des contrats implicites ou explicites passés par ce dernier avec les différents acteurs intervenant dans la vie de la firme. Dans tous les cas de figures, le dirigeant veillera à ce que le maintien de ces relations repose sur sa présence à la tête de la firme. Le dirigeant va donc essayer de tisser un réseau relationnel avec ses collaborateurs et avec les salariés, en accordant beaucoup d'avantages en nature ou des sursalaires ou encore en promettant des promotions abondantes (Sellami, 2006).

### **3. Gouvernance d'entreprise : Un changement de paradigme**

#### **3.1. Une critique des systèmes de gouvernance classiques**

La précédente partie, analysant la théorie de l'agence en termes de pouvoir et de contre-pouvoir, nous mène vers une analyse nous permettant d'évaluer plus finement la portée des systèmes de gouvernance. Comme nous l'avons exposé précédemment, les approches traditionnelles demeurent dans une perspective disciplinaire normative dont l'objectif avoué est d'aligner les intérêts des dirigeants sur ceux des actionnaires, expliquant exclusivement la genèse des problèmes d'agence par la possibilité de comportements opportunistes des premiers. Que cela concerne l'approche actionnariale ou partenariale, il nous semble intéressant d'après nos recherches, à cette étape de notre analyse, de questionner la pertinence fonctionnelle de ces applications.

En effectuant un bref retour sur nos recherches, les systèmes de gouvernement d'entreprise à valeur actionnariale apparaissent tel des solutions justifiables afin de se prémunir des menaces de comportements déviants des agents, à travers l'usage de mécanismes de contrôle. Mais cette démarche ne semble pas être inaltérable. En effet, les dérives des dernières années ont dévoilé des contrecoups de cette méthode pas toujours bienfaisants pour l'organisation. A supposer que la mission de surveillance du conseil d'administration soit idéalement efficace, c'est-à-dire réussissant à discipliner le dirigeant, les exigences établies par les propriétaires se retrouveront au cœur des préoccupations de ce dernier, et influenceront le processus de décision stratégique organisationnel. Plus précisément, les actionnaires à travers leur autorité de contrôle décisionnel, imposeront leurs exigences élevées de rendement à court terme, transférant ainsi la pression sur les agents, amenant ces derniers à adopter des conduites à même de se traduire par un accroissement rapide de la valeur boursière (Mayoukou, 2007). Ceci étant dit, cette exigence de rentes rapides, peut se faire au détriment, de la viabilité et de la croissance de l'entreprise (Mintzberg, 1986). En outre, cette philosophie actionnariale est à même d'inciter ces dirigeants subordonnés à détourner des valeurs par différents procédés en cas d'absence de résultats financiers afin de garder la confiance des propriétaires. De même, une autre dérive serait, comme approché antérieurement, qu'un contrôle trop important puisse entraîner un sentiment d'injustice amenant le dirigeant à user de son contre-pouvoir.

Mais ces dérives disciplinaires ne sont pas spécifiques à la dimension actionnariale, impliquant également une perspective partenariale. A travers les mesures incitatives, offrant aux agents le statut de créancier aussi bien sur un plan décisionnel que sur celui de l'attribution de rentes, cela permettrait de répondre en partie aux besoins des dirigeants les amenant à diminuer les comportements opportunistes, concourant alors aux bons résultats de l'entreprise. Mais nous soulèverons quelques incertitudes concernant l'analogie entre les objectifs espérés de l'utilisation de cette démarche et les résultats obtenus. Dans ce contexte, nous présageons que les dirigeants seront eux aussi amenés à défendre leurs intérêts, à travers la valorisation de leurs titres de propriétés (Stock-option par exemple), en privilégiant eux aussi la valeur à court terme de leurs actions. C'est ainsi que les agents adopteront également un raisonnement actionnarial au sein duquel les logiques financières prendront le pas sur les logiques industrielles, ce qui fausserait le jeu, cela au détriment de l'entreprise (Aglietta, 2005). De plus, l'emploi exclusif des mesures incitatives comme mécanismes disciplinaires, pourrait conduire les dirigeants à profiter des zones de liberté à leur disposition afin d'agrandir leur espace discrétionnaire et leurs avantages personnels, usant également des comportements opportunistes et du contre-pouvoir.



Cette présentation succincte des éventualités de dérives des systèmes de gouvernance représente indubitablement un préambule à la présentation d'un nouveau paradigme d'analyse. Ainsi, nous introduirons l'idée d'une double relation d'agence, non pas uniquement au sens des droits de propriétés soulevé par l'approche partenariale, mais axée sur l'éventualité de comportements opportunistes réciproques. Cette approche nous paraît originale dans la mesure où l'éventualité de ce type de comportements est d'hors et déjà acquise en ce qui concerne les dirigeants, mais qu'il n'en est rien concernant ceux des actionnaires. Nous définirons alors comme opportunisme post-contractuel actionnarial, tout acte ou décision privilégiant leurs intérêts financiers au détriment des autres parties du contrat d'agence notamment les dirigeants voir l'entreprise. Cela entraîne donc des coûts d'opportunités. Cette double perspective étant énoncée, en nous référant à l'approche normative de la théorie de l'agence vue précédemment, nous importerons la nécessité d'une réciprocité du contrôle pouvant s'effectuer à la fois au profit des actionnaires mais également à celui du dirigeant. La question qui nous interpelle dans ce cadre original, est quels sont les moyens permettant aux dirigeants de se prémunir des comportements opportunistes des actionnaires ? Suivant notre logique, nous supposerons que ces contrôles ne seront effectifs qu'en usant des contre-pouvoirs qui seront en leur possession. Là aussi, paradoxalement, à ce qui est attendu, l'utilisation du contre-pouvoir, permettant aux dirigeants, dans son acception originelle, d'adopter des comportements opportunistes, peut ne pas avoir que des conséquences dévastatrices pour l'organisation. En effet, nous pensons que ces conduites peuvent également amener une relation d'équilibre optimisant la création de valeurs organisationnelles, cela sous certaines conditions. Nous allons ici maintenant les analyser.

### **3.2. Une situation d'équilibre sensible aux interactions**

Partant de la dimension positive de la théorie de l'agence expliquant que les systèmes de gouvernance sont censés s'adapter lorsqu'ils ne sont plus efficaces, on devrait alors observer la construction de nouveaux mécanismes permettant de réduire les pertes de valeurs vu précédemment (Charreaux, 1997). Au sein de notre cadre conceptuel, dans lequel nous avons intégré volontairement la nécessité d'arbitrage entre mesures de surveillance et incitatives, il sera nécessaire de trouver une alternative efficace aux dérives pouvant être générées. Avant de nous tourner vers la description de cette situation potentielle d'équilibre, nous approcherons au préalable le caractère dynamique de la relation entre actionnaire et dirigeant-salarié.

Ainsi, malgré la dimension hiérarchique de la relation, nous nous plaçons dans un contexte au sein duquel chaque individu, à travers une approche dynamique, pourrait s'appuyer sur ses ressources et sa rationalité, pour satisfaire ses enjeux (Crozier et Friedberg, 1977). C'est dans ce cadre que ces mêmes chercheurs développèrent le concept de jeux définissant une situation dans laquelle l'utilité et les gains d'un individu seraient affectés non seulement par les actions qu'il entreprend mais aussi par celles des autres. En effet, chacun s'efforcera simultanément de contraindre l'autre afin de satisfaire ses propres exigences et d'échapper à leur contrainte par la protection systématique de sa propre marge de liberté (Crozier et Friedberg, 1977). En outre la prise en compte de cette dynamique et de ces interactions, cette analyse intègre également dans la définition de stratégie des notions de liberté permettant à un individu de poursuivre ses objectifs mais aussi de contraintes qui lui seront imposées dans le but de limiter son champ d'action.

Une fois cette présentation effectuée, nous allons maintenant nous intéresser à la description de la relation d'équilibre limitant, dans notre double perspective d'agence, les dérives de

comportements opportunistes, de chaque partie, assurant ainsi la création de valeur organisationnelle. Nous définirons l'équilibre interrelationnel comme un état au sein duquel aucun acteur ne souhaite modifier son comportement compte tenu de celui de l'autre (Penard, 2004). Ainsi Fama (1978), dans le contexte de gouvernance, illustre cette situation par le fait qu'aucun des individus ne peut accroître son utilité sans risquer une perte d'utilité supérieure due au retrait de la relation de l'autre acteur. Ceci étant exposé, notre objectif sera désormais de démontrer que cette relation d'équilibre serait atteinte grâce à l'interaction entre pouvoir et contre-pouvoir. Au sein de notre paradigme, chaque individu aura deux choix possibles, utilisé ou non son potentiel de pouvoir, sa liberté dans le but de maximiser son utilité. Comme vu antérieurement cette prise de décision s'effectuera sous contraintes. Ces dernières caractérisées par l'évaluation entre utilités et pertes générées pour chaque combinaison de choix possibles mais surtout du pouvoir et du contre-pouvoir de chaque individu.

Au sein de cette première étape nous essaierons de retraduire et d'illustrer les relations de pouvoirs et de contre-pouvoirs pouvant existées au sein d'un système de gouvernance dissociée, cela en se référant partiellement aux théories des jeux. Cette analyse s'effectuera uniquement en termes d'usage ou non du pouvoir et du contre-pouvoir afin d'atteindre des objectifs personnels, intégrant deux parties, le conseil d'administration et un dirigeant. Nous situons dans un contexte au sein duquel l'asymétrie d'information ne permet pas de prévoir les comportements opportunistes ou non des individus. C'est ainsi que nous proposons la grille de lecture suivante :

**Niveau d'utilisation du contre-pouvoir par le dirigeant**

		-	+
<b>Degré d'utilisation du Pouvoir par les actionnaires (Mesures de surveillance et incitatives)</b>	-	1	4
	+	3	

*1. Tableau récapitulatif des différentes relations de pouvoir*

Le cas 1, où ni l'un ni l'autre n'utilise de pouvoirs, signifierait que la dimension contractuelle originelle basée sur l'accord serait suffisante afin de garantir le respect des engagements. En effet, aucune partie ne souhaite se comporter de manière opportuniste. Cette situation au sein de laquelle l'accord permet d'aboutir à un équilibre en satisfaisant les objectifs de chacun, est très rare car la seule possibilité que l'autre individu puisse de manière opportuniste suffit à inquiéter les actionnaires (Parat 2003). En outre, c'est un équilibre précaire dans la mesure où chaque acteur pourrait à tout moment pour des causes propres spolier son homologue.

Le cas 2, au sein duquel le conseil d'administration n'utilise pas de son pouvoir afin de discipliner les dirigeants, est désavantageux pour eux car ces derniers n'hésitent pas à user de leurs zones de liberté. Néanmoins, il est envisageable que les actionnaires soient conscients de ces comportements déviants mais qu'ils laissent volontairement faire car, comme exposé antérieurement, les coûts supportés pour surveiller le manager peuvent être supérieurs aux pertes encourues. Autre perspective, cette situation peut découler des actions d'enracinement et de neutralisation des dirigeants rendant le conseil d'administration passif. En tout état de cause ce type de comportement actionnarial semble réellement dangereux car cela serait aussi synonyme de perpétuation voire de croissance des attitudes déviantes.

Le cas 3 nous ramène à une situation au sein de laquelle, le dirigeant n'a pas la possibilité ou ne souhaite pas adopter de comportements opportunistes en usant de contre-pouvoirs, cela dû peut être à l'utilisation par le conseil d'administration de ses mécanismes de régulations. En effet, une surveillance stricte des décisions et des actes de gestion peut décourager le dirigeant à adopter des attitudes déviantes. En outre, cette absence d'actes déviants peut aussi provenir de la mise en place de mesures incitatives, attribuant partiellement le statut de créancier au dirigeant assurant une jonction d'intérêts. Comme vu précédemment, ce genre de situation peut être dommageable aux dirigeants-salariés, car pouvant conduire à des choix opportunistes pour les actionnaires spoliant ainsi les rentes managériales et organisationnelles.

Le quatrième cas, peut être assimilé à un échiquier dans lequel chaque partie a recours à sa stratégie afin d'optimiser ses gains personnels en fonction des contraintes de la partie. En effet, restant dans notre arbitrage entre approche actionnariale et dimension partenariale nous pouvons soit nous retrouver dans une situation de résistance, de protestation face à un contrôle accru soit dans une relation de détournement des droits décisionnels provenant de l'instauration de mesures incitatives.

En conclusion, à cette partie où sont mises en lumière les interactions interpersonnelles, dans une situation au sein de laquelle chacun recherche l'optimisation de ses objectifs l'option à choisir serait le numéro 4. En optant pour cette situation, les acteurs adopteront une stratégie dominante c'est-à-dire permettant de faire face à toutes les stratégies possibles de son rival (Pénard, 2004). En effet, abstraction faite de l'option 1 nous paraissant telle une pure utopie, le conseil d'administration aura intérêt dans le cas 2 à utiliser son pouvoir de contrôle afin de limiter les comportements opportunistes du dirigeant, de même que si ce dernier (cas 3) ne dispose pas de moyens d'actions les actionnaires gagneront à adopter la même stratégie afin de le garder discipliné. En ce qui concerne le dirigeant, dans le cas 2 ce dernier devrait adopter un comportement maximisant ses intérêts et dans le cas 3, afin de se dégager de la pression actionnariale utiliser ses zones d'incertitudes et son contre-pouvoir. Nous voyons donc que d'un point de vue personnel, chacun aura intérêt à utiliser son pouvoir en intégrant des contraintes propres. Mais qu'en est-il de cet équilibre au niveau organisationnel.

Dans le cadre de cette seconde étape, nous nous soucierons de l'équilibre relationnel permettant la viabilité de la rente organisationnelle. Si nous reprenons notre représentation, le cas 2 laisse envisager une perspective importante d'enracinement de la part du dirigeant cela pouvant être dangereux pour les actionnaires mais aussi comme vu précédemment pour l'entreprise, du fait que cela peut entraîner des dérives, les dirigeants privilégiant leurs intérêts personnels et faisant passer la maximisation de la valeur de l'organisation au second plan. Le cas 3 dans une autre mesure est tout aussi dangereux pour la structure. En effet, dans cette perspective, les actionnaires en recherchant la production de valeurs financières à court terme peuvent être amenés à prendre des décisions stratégiques allant à l'encontre des besoins de croissance de l'entreprise ou à inciter indirectement les dirigeants subordonnés, à détourner

des valeurs par différents procédés en cas d'absence de résultats. Dans ce même cas, le conseil d'administration peut proposer des mesures incitatives, avec la probabilité que les dirigeants soient eux aussi amenés à défendre leurs intérêts, en privilégiant eux aussi la valeur à court terme de leurs actions entraînant les dérives vues ci-dessus. Encore une fois, d'un point de vue organisationnel, l'option 4 paraît équilibrée. En effet, le fait qu'il y ait un contrôle de la part des actionnaires permet de surveiller les décisions stratégiques et de gestion du dirigeant limitant voir annihilant ainsi les dérives causées par l'enracinement mais aussi de la recherche de rente financière dans le cas de l'instauration de mesures incitatives. De plus, un contre-pouvoir effectif, permettrait en outre, et cela est original, d'altérer les dérives financières et boursières des actionnaires. En effet, en usant de ses zones de liberté, le dirigeant peut arriver à neutraliser volontairement ou non les décisions stratégiques qui lui semblent risquées pour la viabilité de l'entreprise et sauver alors sa rente managériale.

La recherche par chacun de l'amélioration de leurs gains personnels en usant de leurs différents pouvoirs, peut amener à la neutralisation de la production de dérives dangereuses pour l'entreprise.

## **Conclusion**

Il existe un réel décalage entre les apports des recherches classiques de la gouvernance d'entreprise et les résultats obtenus concrètement. En effet, les perspectives disciplinaires développées ne permettent pas de cerner efficacement l'ensemble de la problématique, n'arrivant donc pas à neutraliser l'avènement de dérives boursières et de gestion. De nombreuses explications peuvent être évoquées : la prise en compte exclusive d'une dimension partenariale ou actionnariale, la vision opportuniste et passive du dirigeant, l'approche souveraine et inoffensive de l'actionnaire... Le constat suivant lequel ces contributions peinent à prouver leur efficacité, remet en question le paradigme étudié.

Ainsi important un nouveau paradigme, il est supposé une double relation d'agence au sein de laquelle nous pouvons retrouver : un champ relationnel dynamique comprenant des comportements opportunistes provenant à la fois des dirigeants mais aussi des actionnaires, instaurant un rapport de pouvoir déséquilibré mais réciproque invoquant un rôle actif du dirigeant. En effet, nous sommes arrivés à l'hypothèse que la rencontre des intérêts divergents et la relation dialectique qui en découle, ne paraît pas uniquement néfastes pour l'organisation. Ainsi, nous sommes convenus que la recherche mutuelle de la maximisation des intérêts personnels, usant du pouvoir et du contre-pouvoir, permet d'aboutir à une situation pérennisant la production de rente en limitant considérablement les possibilités de dérives personnelles et organisationnelles.

Cette remise en cause des théories classiques tournées vers l'omniscience des actionnaires et cette proposition d'ouverture conceptuelle basée sur la nécessité d'intégrer le rôle actif du dirigeant ainsi qu'un contre-pouvoir bonifiant, souffre d'un manque de confrontation méthodologique mais surtout d'un développement affiné décrivant les conditions de réussite ou d'échec de ce modèle. De même nous nous sommes arbitrairement restreints aux mesures de contrôle incitatives et de surveillance ainsi qu'à la gouvernance dissociée.

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# Governance : An approach in terms of power and Counter Power

Jérôme Gardody

Introduction

## A shareholder perspective of the governance

- Historically governance systems seek to provide an omniscient view to shareholders on the practices of their CEO
- Indeed, the agency theory (Jensen and Meckling, 1976) highlighting the conflict of interests between both parties, includes a perspective of management conflicting to shareholders (Berle and Means, 1932)
- Thus, since 2001, separate governance enables the board of director to opt for a system separating the function of general manager (employee) and shareholder to strengthen the prerogatives of control

## A globalized crisis confirming this sense

- Then current crisis will drive shareholders to question the behavior of their general managers who are described as person in charge of the dysfunctions
- In this context the systems of governance become soaked with a disciplinary dimension to determine the behavior of the manager by measures of surveillance and incentive (Charreaux, 1997)
- So, we shall introduce the notion of power appearing such a key element ensuring the efficiency of these systems

# Towards a change of paradigm

- Nevertheless we shall consider this situation, initially unilateral, such a dynamic relational field sensitive to the interactions, integrating the concept of counter power.
- Also we will adopt the original perspective of a double relation of agency within which each person, even the shareholders, can follow opportunist strategies.
- That's why we thus suppose that the dysfunctions can be also caused by the decisions of shareholders.
- We shall try to demonstrate that the simultaneous use of power and counter power will lead to an organizational balance.

## Plan

### **1. A conceptual immersion in classical theories of corporate governance**

- 1.1. The original problem of the agency theory
- 1.2. Shareholder and stakeholder dimension : disciplinary solutions

### **2. Separate governance: a dynamic relational approach**

- 2.1. The Power: an essential concept of the disciplinary approach of the governance
- 2.2. From Power to Counter Power

### **3. Corporate Governance : a change of paradigm**

- 3.1. A critical analysis of the classic systems of governance
- 3.2. An organizational balance sensitive to the interactions

### **Conclusion**



# 1. A conceptual immersion in classical theories of corporate governance

## 1.1. The original problem of the agency theory

- The agency relationship is a contract by which a person, the principal, hires another person, agent, to execute on behalf of a certain task involving the delegation of certain number of prerogatives (Jensen et Meckling, 1976)
- It appears relations of conflicts, due to the disintegration of the interests (Alchian et Demsetz 1972) which includes a perspective of management conflicting to shareholders (Berle and Means, 1932)
- So, the agents will try to maximize their own utility by adopting opportunist behavior (Charreaux, Couret, Joffre et Alii 1987). These conflicting relationships, entail, costs impacting the profit (Jensen and Meckling, 1976)

## 1.2. Shareholder and Stakeholder dimensions : disciplinary solutions

- In this context, agency theory provides control mechanisms to limit the opportunist behavior of agents (Neveu, 2000)
- The shareholder perspective drives to be interested only in mechanisms allowing to align the interests of the manager, on those of the shareholders (Shleifer et Vishny, 1996).
- The mechanisms of surveillance having for objective to ratify the initiatives of the managers and to verify their good implementation are Specific devices of this approach (Fama et Jensen 1983)

## 1.2. Shareholder and Stakeholder dimensions : disciplinary solutions

- The stakeholder dimension spreads owner's status to all the participants of the productive system in particular to the leaders (Hill et Jones, 1992)
- By extrapolating, it is considered a reciprocal relationship between manager (principal) and shareholder (agent) (Charreaux, 1998)
- The stakeholder approach proposes control mechanisms basing on the research for the satisfaction of the interests : The incentive measures concerning the decisions and the sharing of the pensions would allow to limit the opportunist behavior of the managers
- In spite of their differences these two dimensions propose both a disciplinary approach of the efficiency insofar as it is recommended to the shareholders to supervise or to incite the managers

## 2. Separate governance: a dynamic relational approach

### 2.1. The Power : an essential concept of the disciplinary approach of the governance

- It is a perspective considering the power such an essential support, for the understanding of the construction of the systems of governance
- Within our disciplinary perspective, it seems relevant to approach this concept through its manifestations, as the capacity to influence the behavior of others (Dahl, 1957)
- The relation of agency initiated being hierarchical, the link emanating would allow to distinguish authority as first organizational and formal source of the power (Mintzberg, 1986)

## 2.1. The Power: an essential concept of the disciplinary approach of the governance

- Weber (1922) and Chester Barnard ( 1938 ) approached this hierarchical and unilateral relationship under a different angle, so introducing the term of legitimacy supposing the acceptance of the subordinate
- We end in a relation of exchange integrating the concept of dependence as an essential notion of the legitimacy (Blau et Homans , 1974)

## 2.2. From Power to Counter Power

- The reciprocity of power allows us to identify the concept of counter power which is defines as a power raising itself in front of an established authority (Etzioni, 1964 ; Crozier, 1977)
- The notion of interdependence which introduces the situation of dependence of the supervisor to the subordinate, appears such a source of counter power (Kim and Fragale, 2005)
- The control of the zones of uncertainties would allow the use of the counter power (Crozier and Friedberg, 1977)
- Generally the opportunist behavior of managers expressed itself by strategies of managerial entrenchment (Paquerot, 2000)

## 3. Corporate Governance : a change of paradigm

### 3.1. A critical analysis of the classic systems of governance

- The negative effects of the shareholder approach
- Drifts of the stakeholder perspective
- Introduction of a new paradigm in which each actor can adopt opportunist acts even shareholders : we shall define shareholder opportunism as any act or decision privileging their financial interests to the detriment of the other parts of the contract in particular the manager and the company
- We will import in our analysis the necessity of a reciprocity of control which can be made at the same time in favor of the shareholders and the manager
- According to our logic, we shall suppose that these mutual controls will be effective only by using powers and counter powers of each person.

## 3.2. An organizational balance sensitive to the interactions

- In spite of the hierarchical dimension of the relation, we take place in a context within which every individual, through a dynamic approach, could lean on their powers and their rationalities, to satisfy their stakes (Crozier and Friedberg, 1977).
- In our double perspective of agency, the situation of balance has to limit the opportunist behaviors of each part, so assuring the creation of organizational value.
- The balance is a state within which no person wishes to modify his behavior considering the other actor (Penard, on 2004).
- This relation of balance would be reached thanks to the interaction between power and counter power

## 3.2. An organizational balance sensitive to the interactions

		Degree of use of the counter power by the manager	
		+	-
Degree of use of power by the shareholder	-	1	2
	+	4	3

### **Session 3 : PARTNERSHIPS**

***Chairman: C. Tisdell (FACIREM, University of Queensland, Brisbane, Australia)***

#### ***Inter firm Governance and Relationship***

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#### ***Network Governance: Network Closeness and Firm Performance p. 216***

Takao Ito (Ube National College of Technology, Japan) and Christopher John Medlin (FACIREM, University of Adelaide, Australia)

# ***INTER-FIRM GOVERNANCE AND RELATIONSHIP PERFORMANCE: AN INTER-FIRM STUDY OF MARKET, HIERARCHY AND RELATIONAL COORDINATION MECHANISMS***

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## **Abstract**

Governance within inter-firm alliances refers to oversight of strategic direction and the mechanisms for the resolving issues that necessarily arise. Within inter-firm business relationships, governance modes have been conceptualized as a mixture of three ideal coordination mechanisms; market, hierarchy, and relationships. Measuring governance effectiveness requires choice of a managerial goal. As the purpose of business relationships is profit through joint action we examine governance effectiveness with regard to relationship performance.

A coordination mechanism model of governance is proposed and examined in the empirical setting of 162 software firms and their business relationships. A structural equation model indicates that relational coordination is a mediator variable for relationship performance. In general terms two governance modes explain relationship performance. A non-market relational governance mode and a plural mode comprised of contract-hierarchical and relational coordination mechanisms. The final sections of the paper discuss future research and managerial implications.

**Keywords:** governance mechanisms, coordination mechanisms, relationship performance

## **Introduction**

When two firms work together to profit from their joined activities in a market place they face uncertainty from the actions of other firms, from customers and with each others performance and strategic intentions. Das and Teng (1998b) categorize these risks as either performance or relational. Governance brings a degree of certainty on which the firms can rely. In an inter-business relationship governance is concerned with the procedures and rules that exist to allow the firms to work together; that is to decide their future joint strategy, their resource commitments, the division of profit and how to resolve the disputes that are certain to arise (Bergen, Dutta, and Walker, 1992; Heide, 1994).

In the social science literature, three ideal coordination mechanisms are recognized; (1) market, or control through price; (2) hierarchy, or control through authority; and (3)



relational, or trust based management through jointly controlled processes (Bonoma, 1976; Bradach and Eccles, 1989). Governance modes for inter-firm relationships apply a mixture of these three ideal coordination styles (Haugland and Reve, 1994; Poppo and Zenger, 2002; Powell, 1987). In other words, the ideal coordination mechanisms are a part of any specific inter-firm governance mode. The mixture of coordination mechanisms depends on the nature of the business relationship and the specific focus of the present governance issue within the relationship (Ness and Haugland, 2005); whether resolving a strategic or profit issue, or coordinating resources to resolve a specific market based issue.

Our purpose in this paper is to examine the interplay of the three coordination mechanisms and specifically how they operate within governance modes. The paper is structured in the following manner. First, we examine the inter-firm governance literature and discuss differences between firm and inter-firm governance. We also identify the distinctions between the coordination mechanisms. Next we elaborate a theoretical framework based on relationship performance to examine different governance modes and develop hypotheses. In a third section we report an empirical test of our model. In the final sections we discuss future research and managerial implications.

## **Governance and Coordination Mechanisms**

Governance, in an inter-firm business relationship setting, is about attempting to control specific elements of the future. When two firms work together to profit from their joined activities in a market place they face uncertainty from the actions of other firms, from customers and concerning each others strategic intentions and performance (Das and Teng, 1998b). Under conditions of uncertainty, governance modes bring a degree of certainty, on which the firms can rely (Heide, 1994).

According to Williamson (1996) governance of a firm is concerned with the “identification, explication, and mitigation of all forms of contractual hazards”. Whereas governance, in an inter-firm context, refers to the way firms have oversight of their strategic direction, allocate resources to resolve problems faced by the firms, and finally share the profits of their strategic alliance, or joint action (Heide 1994). However, there is an important distinction that must be made between governance ‘of’ the firms in a business relationship and governance ‘by’ the firms. This distinction relies on the degree of jointness of the governance mode. Before fully explicating this distinction we first elaborate the differences between market and hierarchy following Williamson’s (1991; 1975; 1993; 1996) transaction cost perspective on governance.

The main question from a transaction cost economics perspective is whether a firm should outsource or undertake production within the firm (Williamson, 1975). The decision is based on the economic costs of outsourcing versus maintaining production within the firm; where authority ensures compliance of product quality and efficiency of production. According to Williamson (1985) three variables influence the cost of the decision: (1) the potential frequency of transactions, (2) the degree of uncertainty, and (3) the level of asset specificity, or the degree to which a resource can be applied to multiple uses. Each of these three variables influences “the costs associated with writing, executing, and enforcing contracts” (Williamson, 1985). According to Williamson (1985), when contractual costs are high, “markets fail and hierarchies emerge in their place”.

Under outsourcing the matters of product quality and production efficiency are controlled through market price. The firm can pay a higher price and gain product quality, while competition within the market ensures efficiency. On the other hand when a firm produces in-house the authority structure of the firm and the firm's systems of control ensure production efficiency and product quality. Thus, from a transaction cost perspective the two forms of coordination mechanism substitute for each other. Noteworthy in this discussion, and assumed within the transaction cost perspective, is that the buy or make decision is made by the firm. That is, governance is solely a firm matter.

The transaction cost perspective has resulted in a number of papers considering the matter of governance as a market-hierarchy continuum, with relational governance existing in the middle (cf Richardson, 1972; Thorelli, 1986; Webster, 1992). Thus, Webster (1992) considers a whole range of market relationships extending from transactions to vertical integration; including repeated transactions, long-term relationships, partnerships, strategic alliances, and network organization. Hennart (1993) considers this changing sequence of relationships as the "swollen middle" on a continuum of institutions from firm to market, noting that institutions and governance should not be conflated. This distinction between coordinating mechanisms and inter-firm institutional arrangements is important and is further elaborated shortly.

Transaction cost economics, and more broadly, the field of organizational economics has been criticized from at least three distinct directions. First, there is the question of fore-fronting economic costs and back-grounding the information benefits of control within organizations. Perrow (1981) argues that taking only a transaction perspective under values the advantages of internal control within hierarchies. For example, Eccles and White (1988) point to the ability of a firm's control systems to provide different sets of information than is available in a market. "Conflict [within a hierarchical firm] makes information available to top management that otherwise might not be known or would be difficult or expensive to obtain" (Eccles and White, 1988, p.102). In other words a buy-make analysis based only on transaction costs ignores the information benefits of hierarchical control within a firm.

Second, and at a more general level, the transaction cost approach is based on the concept of opportunistic human behavior (Donaldson, 1990a; Ghoshal and Moran, 1996). Indeed Williamson (1985) argued that 'trust' is redundant and that guile and opportunism are the norm within a transactions perspective. Alternately, Donaldson (1990a; 1990b) and also Ghoshal and Moran (1996) argue that a transaction cost approach is reductionist in not allowing managers to behave according to other contingencies. For example, a transaction cost approach completely negates the possibility of managers working together on the basis of trust.

The third criticism relates to the distinction, made earlier, between governance 'by' the firms in a business relationship and governance 'of' the firm. When firms work together in an inter-firm relationship, governance happens within the business relationship, between the firms and 'by' the firms. No longer is governance a matter for only one firm, as in the transaction cost perspective. This difference parallels Hennart's (1993) distinction between governance modes and the institutions. Further, the distinction matches that made by Heide (1994) between unilateral and bilateral governance. These distinctions led Powell (1990) to argue that networks were not a hybrid between market and hierarchy; rather that networks were a completely different organizational arrangement. Larson (1992), using an empirical case study approach, provides evidence that relational governance exists outside of a market-hierarchy continuum

The three weaknesses of a transaction cost perspective and the distinctions between governance modes, institutions and coordination mechanisms resulted in a number of authors proposing that multiple governance forms exist (cf Cannon, Achrol, and Gundlach, 2000; Heide, 2003; Hennart, 1993). These same issues and distinctions also led to other authors suggesting a three dimensional governance space for inter-firm situations, based on three ideal coordination mechanisms (Alajoutsijärvi, Möller, and Rosenbröijer, 1999). This is achieved with Stinchcombe's (1985) argument that contracts between firms are a form of hierarchy. Medlin (2003) summarized the three ideal coordination mechanisms as market, relational and contract-hierarchy (see Table 1). Governance modes exist as plural forms of these ideal coordination mechanisms.

**Table 1: Ideal Coordination Mechanism for Inter-firm Relationships**

	Market Coordination	Relational Coordination	Contract-hierarchy Coordination
Level of organization	<b>Firm</b>	<b>Relationship</b>	<b>Supra-firm Leader and follower</b>
Time horizon	<b>Short term</b>	<b>Long term</b>	<b>Long term</b>
Control Locus	<b>Within the firm</b>	<b>Relationship level, between the firms. Joint control</b>	<b>Within the dominant firm</b>
Number of alternative partners	<b>Several parties which are played against each other</b>	<b>Two firms with no competing provider</b>	<b>One or few partners depending on the functional benefits they can provide, with partner submissive</b>
Dependence on other party	<b>Both are independent of each other</b>	<b>Both are dependent on each other</b>	<b>Leader less dependent; follower more dependent</b>
Particularity	<b>Relationship is not particular for either party</b>	<b>Relationship is particular for both</b>	<b>Varies by dependence</b>
Connectedness to partner	<b>Weak positive</b>	<b>Strong positive</b>	<b>Strong positive</b>
Connectedness to alternative partners	<b>Strong or weak negative</b>	<b>Strong or weak negative</b>	<b>Varies by level of dependence between leader and follower</b>
Trust	<b>Weak</b>	<b>Medium to strong</b>	<b>Medium to strong</b>

*Source: adapted from Medlin (2003)*

To conclude, the locus of control varies across the ideal coordination mechanisms. With market coordination the locus of control is within the firm, and governance is 'of' a firm. Whereas, under ideal contract-hierarchical coordination the relationship is one of leader and follower, with one firm directing and controlling and the other following. With contract-hierarchical coordination the governance mode is 'by' a firm, and across two firms. Heide (1994) called this a non-market and uni-lateral hierarchical governance mode. Under ideal relational coordination the firm governance mode is also joint, 'by' the firms, but the relationship is of equal partners and decisions are taken under conditions of mutual trust.

Evidently the ideal coordination mechanisms do not exist in real business relationships, rather plural forms of the ideals complement and substitute for each other in different parts of the governance processes. For example, a contract may specify the expected sales of the two firms and prices will determine relative profit share, while resources and activities are specified according to a relational coordination process. In the next section we introduce a theoretical framework to examine the interplay between the three ideal coordination mechanisms and how they might form different governance modes.

## Theoretical Framework: Relationship Performance and the Three Ideal Coordination Mechanisms

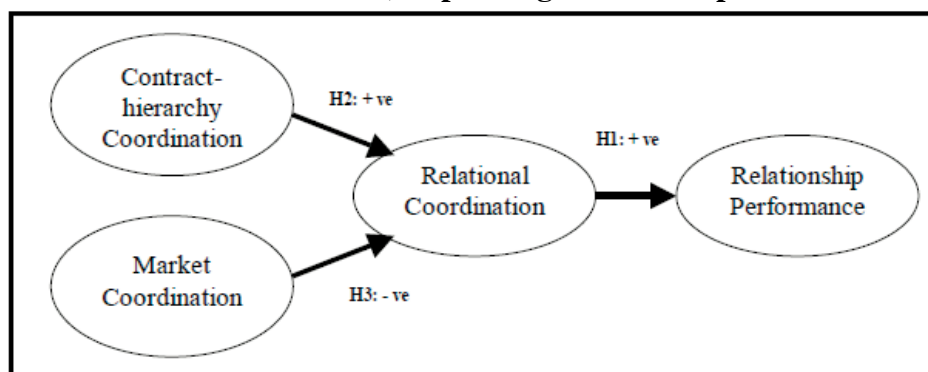
When the focus of governance mechanisms is on inter-firm business relationships, the inter-play between the three ideal coordination mechanisms takes on special significance. Many inter-firm relationships start out as single encounters in a market place and move towards a relationship. Lambe, et al. (2000) discuss the idea of a market – relationship continuum, with a mid-range that includes "repeated transactions" and "intermistic" relational exchanges. Yet other relationships are formed as a result of a search process, where a firm seeks a partner with complementary resources that will aid in entering a market place. In this case the relationship is contractual, either explicit or implicit, with the two firms agreeing to work together on a single strategy. In each case the firms work together on a joined set of complementary strategies: their goals are 'relationship performance' and so derived firm profit.

Relationship performance is defined as a dyad level construct, which accounts for the joint performance of two firms operating together in a relationship (Medlin, Aurifeille, and Quester, 2005). Given the link between two firms working jointly to achieve performance, we propose a direct and positive association between the ideal of relational coordination and relationship performance (see figure 1). Relational coordination is defined as jointly controlled governance processes where the two firms work out their future strategy and resource allocation together. Each firm considers the impact of change on the other firm, and each firm is able to rely on the other firm to handle unexpected contingencies. Relational coordination is characterized by high levels of cooperation and mutuality between the firms, and is very likely correlated with a high degree of trust and commitment between the parties (cf Morgan and Hunt, 1994).

Thus we hypothesize:

H1: Within inter-firm business relationship higher degrees of relational coordination will result in higher levels of relationship performance.

**Figure 1: Theoretical Model of Inter-firm Governance, Based on Three Ideal Coordination Mechanisms, Explaining Relationship Performance**



Contract-hierarchical governance is where both parties work together on an the basis of an explicit or implicit contract. In this governance form the ideal coordination mechanism is a leader and a follower firm, with the leader commanding a form of authority or leadership that provides a means of control over the other party. Thus, at the ideal, the relationship is one of

master and slave, however in a less ideal form both parties may be leaders over different aspects of the relationship. Further, there is also an attribution issue (cf Smith and Barclay, 1997), as some managers will perceive the relationship to be leader-follower, while others may not. The concepts of power and influence over another party have long been discussed in the channel literature (cf Boyle et al., 1992; Frazier and Rody, 1991; Thomas, 1984).

Given that authority and trust should substitute for each other to some degree (Das and Teng, 1998a), we expect that the ideal mechanism of contractual-hierarchical coordination is positively associated with relational coordination. When firms know and understand their contractual relationship we expect that they will be able to work together more effectively. Under explicit, or implicit, contract conditions the specification of resources, relationship responsibilities and risks should lead to a form of joint decision making over time, one that is contained within the boundaries set by the contract. In fact Poppo and Zenger (2002) found some evidence of this association and concluded that authority and trust are complementary coordination mechanisms.

Thus we hypothesize:

H2: Within inter-firm business relationship higher degrees of contract-hierarchical coordination will result in higher levels of relationship performance.

Finally, we expect a negative association between the ideal form of market coordination and relational coordination. We define ideal market coordination as price driven and where the decisions are taken in the present exchange without consideration to the long term. As pricing in the present exchange is the basis of the inter-firm coordination, that is there is no future ramification, the firms will have mutually exclusive goals.

Thus we hypothesize:

H3: Within inter-firm business relationship higher degrees of market coordination will result in lower levels of relationship performance.

## **Method**

### *Empirical Study*

The empirical setting for the study was business relationships between business software principals and their distributors. The sample frame was Australian Government web sites listing software firms from different vertical markets. The final convenience sample consisted of 162 principal and distributor firms. A check for equivalence of response by firm type found no significant difference.

Each firm was contacted by telephone in 2006 and their CEO or Marketing Manager identified a specific relationship on the basis of the following criteria: (1) the relationship was important to the firm's strategy, (2) the relationship was arranged only by the two firms, (3) the relationship required continuous interaction between the firms, and (4) the relationship was not with a consumer. The business-to-business nature of the relationships and the existence of set market boundaries according to country or region meant that respondents could easily gauge expectations of market performance and competition. Thus, measurement of relationship performance was enhanced.

### Measurement

The indicators for the study are given in appendix A. The dependent variable of relationship performance was measured as a latent construct, which was focused exclusively on economic indicators for the joint outcomes of two firms' activities in a single market (Medlin, Aurifeille, and Quester, 2005). The indicators for the remaining variables were developed for this study based on the definitions given above and the focus dimensions displayed in figure 1.

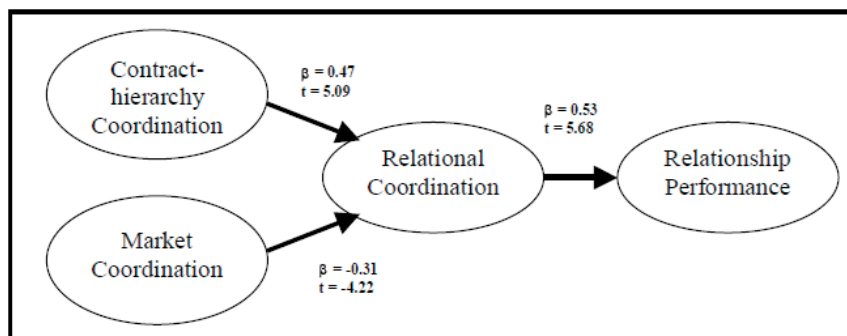
All answers were collected on nine point semantic difference scales, which Jöreskog and Sörbom (1996) consider as ordinal. The association of these ordinal variables can be considered as either a Kendall, canonical or a polychoric correlation. The latter option was chosen because several monte-carlo studies have demonstrated that polychoric correlations are (1) less biased in the case of relatively small samples, as in the present study, and (2) are usually the best estimator of association whatever the number of points of the ordinal scale (Jöreskog and Sörbom, 1996).

Following the two-step approach suggested by Anderson and Gerbing (1988) construct measures were prepared using the Maximum Likelihood method. The measurement approach for the four theoretical constructs in the model is displayed in Appendix B. The Kaiser-Meyer-Olkin Measures of Sampling Adequacy ranged between 0.616 for 'contract-hierarchical coordination' and 0.766 for 'relationship performance'. The Bartlett's test of sphericity for all constructs was significant ( $p = 0.000$ ). The polychoric correlation matrix and final measurement model are displayed in appendix B. The  $t$  values of the measurement parameters are all significant at the 95% level of confidence (see appendix B).

### Results

A structural equation model was prepared on the basis of Maximum Likelihood regression using the Lisrel 8.80 software (Jöreskog and Sörbom, 1996). All hypotheses were supported (see figure 2). The Goodness of Fit Index was 0.97 and the Adjusted Goodness of Fit Index was 0.96. The RMSEA of this model was 0.066 with a 90% confidence interval extending from 0.041 to 0.90. The Chi-square statistic of 85.33 with 50 degrees of freedom was acceptable (Bentler, 1990) and significant ( $p = 0.0014$ ). These measures suggest that the model has a "correct fit". That is, the observed structure of association is correctly estimated by the parsimonious model.

**Figure 2: Structural Equation Model**



### *Discussion*

The theoretical implications of this study are interesting as comments can be made with regard to effectiveness of governance modes. In each case our discussion is based on ideal coordination mechanisms forming governance modes. We also note that the following comments are made relative to the goal of 'relationship performance', a collective outcome of the inter-firm relationship. In choosing this dependent variable the question of governance mode performance and coordination mechanism operation is made relative to the collective inter-firm effort, not the self-interest profit of each firm. However, evidently the profit of each firm is derived from relationship performance.

First, in achieving relationship performance the role of relational coordination is most important. Relational coordination explains 28% of relationship performance ( $R^2 = 0.28$ ). Moreover, neither contract-hierarchical or market coordination have a significant direct influence on relationship performance. In other words, relational coordination is a capital mediator of the effect of contract-hierarchy coordination and market coordination on relationship performance. Without effective and efficient relational coordination mechanisms, inter-firm relationships will not easily achieve collective economic outcomes.

Second, two governance modes explain the collective outcome of relationship performance. First, the contract-hierarchical and relational coordination mechanism path. In this plural governance form, contract and certainty about roles is mixed with relational coordination ( $\beta = 0.25$ ,  $t = 4.31$ ). The other mode is a non-market relational governance path, composed as long term non-market coordination (ie the negative association between market and relational coordination constructs) and relational coordination ( $\beta = 0.16$ ,  $t = 3.52$ ). This jointly focused governance mode, where both parties take a long term view and work together, is shown to be slightly less effective in explaining relationship performance than the plural contract-hierarchical and relational governance mode.

### **Future Research**

Future research of plural governance modes can be undertaken in two broad areas on the basis of the ideal coordination constructs developed in this paper. The first area is to elaborate the different ways that the ideal coordination mechanisms apply in each of the areas of governance, namely the areas of (1) strategic issues, (2) profit sharing, (3) resource and activity coordination, and (4) dispute resolution. An alternate approach is to examine the ideal coordination mechanisms within the relationship maintenance dimensions suggested by Heide (1994); (1) role specification, (2) planning processes, (3) adjustment processes, (4) monitoring procedures, (5) incentives systems, and (6) enforcement methods. We can expect the ideal coordination mechanism to interact in dissimilar ways in each different relationship type. Clustering techniques would be suitable for examination of the different relationship types, provided independent trait variables were included in the study to classify relationship types and the governance areas or maintenance dimensions. Studies in this area should allow more detailed elaboration of the way plurality exists in governance modes.

The second area of study examines the question of how non-market relational governance 'by' firms operates when two parties interact (ie dyad studies). This stream of research takes a more dynamic approach by including both relationship parties in the issue of governance modes. The ideal coordination variables developed in the present study can be used to examine governance modes, where both parties are involved (for example see Aurifeille and

Medlin (2001; 2006; 2007)). Dyad studies will be important, as governance that results in relationship performance has been shown in this chapter to require relational coordination where both parties work together. Thus, examination of the different dynamics of relationships requires more than one-sided attributions by managers; the nature of the interaction between the parties is also important.

A third important area of future study is the degree to which contracts are explicit or implicit. More explicit contracts reduce the domain available for relational coordination. The research presented in this chapter suggests that reducing the domain of relational coordination will reduce relationship performance. Adaptability is a known strength of business relationships (Hallén, Johanson, and Seyed-Mohamed, 1991). The likely mechanism is that increasing contractual control reduces the degree of adaptability that can be achieved through relational coordination, so reducing relationship performance over the longer-term. The question of how explicit to make relationship contracts deserves considerable research in different contexts.

### **Managerial Implications**

In today's globalized economy the use of business relationships has been increasing as technological differentiation and complexity have led to the situation where it is increasingly rare that a single firm can undertake all production activities (Achrol and Kotler, 1999). The empirical results presented in this chapter have important ramifications for Boards of Directors, CEOs and the managers of firms that must operate through business relationships. The results indicate that relational coordination, where two firms jointly control governance processes and the firms work out their future strategy and resource allocation together, is vitally important in achieving relationship performance. And since firm profit is derived from the implementation of all of a firm's business relationships, the management of relational coordination mechanisms becomes paramount.

The importance of relational coordination has subtly different implications depending on the level of management being considered. First, managers at the business relationship level will need to have in place processes for ensuring that change and adaptations between the firms are implemented in a way to ensure attribution of continuing trust and commitment. Essentially, sound communication is required between the parties and that implies regular meetings to discuss the future strategy, the changes in resources and activity allocation and resolution of any differences as soon as is practically possible. Managing the relationship should be two-sided so that each side is valued in the creation of end-customer value by the relationship.

However, the role of CEO is somewhat different. The CEO must ensure relational governance at the operational level is successful. The CEO will be more concerned with strategic issues and resolution of difference at the strategic level. The CEO should focus on achieving common strategic understanding of the relationship with the CEO of the other firm. Involvement in resource and activity implementation would only be on the basis of re-directing strategic matters, or resolving strategic disputes, with the partner CEO. The day to day resource and activity implementation should be left to the managers so that relational coordination can achieve the adaptive changes necessary to achieve relationship performance.

The Board of Directors (BoD) will be more concerned with providing contractual and business oversight that structures the business relationship as part of the firm's strategy. Thus



the BoD is concerned with contractual issues for all business relationships. Deciding which contracts should remain implicit, rather than explicit, is a key decision faced by the BoD. Explicit contracts will lead to a reduced domain for relational coordination, while implicit contracts leave a broader sphere of influence to relational coordination. The empirical evidence in this chapter suggests that relational coordination and thus implicit contracts result in greater relationship performance. However, relational coordination also has a cost, which contracts can mitigate by reducing the domain of relational coordination. Thus, the BoD may choose some relationships, important to long-term adaptation by the firm, to be operated on a more relational governance mode than others. In essence the future of the firm depends on certain relationships, more than others. The BoD is responsible for deciding the number of relationships to operate according to relational governance, and the degree of relational versus contractual coordination in each relationship. The resolution of these important relationship matters shapes the future strategy, adaptability, efficiency and profit of the firm.

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## Appendix A

### Construct Indicators

Construct	Indicators	Response Anchors
Relational Coordination	<ol style="list-style-type: none"> <li>In the future we can count on the other firm, to consider how its decisions and actions will affect our firm</li> <li>Though circumstances change, we believe the other firm will be ready and willing to offer us assistance and support.</li> <li>When making important decisions, the other firm is concerned about our firm's welfare.</li> </ol>	9 point scale Extremely strong to extremely weak
Contract-hierarchy Coordination	This relationship will allow efficient use of our firm's resources. This relationship will lead to sound economic use of our firm's resources. This relationship will allow effective use of our firm's knowledge base.	9 point scale Strongly agree to strongly disagree
Market Coordination	<ol style="list-style-type: none"> <li>Our firm is only interested in the short-term with this relationship.</li> <li>Our firm is willing to change from this partner at any time.</li> <li>This relationship is short-term oriented.</li> </ol>	9 point scale Strongly agree to strongly disagree
Relationship Performance	Consider all of the costs and revenues with the Focus Relationship. Relative to your firm's expectations in the focus market, what has been the performance of the inter-firm relation on the following dimensions? <ol style="list-style-type: none"> <li>Sales, 2. Sales growth, 3. Market share</li> </ol>	9 point scale Extremely strong to extremely weak

## Appendix B

### Polychoric Correlation Matrix

	Relat-1	Relat-2	Relat-3	Hier-1	Hier-2	Hier-3	Mark-1	Mark-2	Mark-3	Perf-1	Perf-2	Perf-3
Relat-1	1.00											
Relat-2	0.66	1.00										
Relat-3	0.68	0.74	1.00									
Hier-1	-0.03	-0.08	0.08	1.00								
Hier-2	0.43	0.46	0.41	0.27	1.00							
Hier-3	-0.01	0.02	0.15	0.69	0.45	1.00						
Mark-1	-0.29	-0.41	-0.29	0.01	-0.34	-0.03	1.00					
Mark-2	-0.24	-0.38	-0.34	0.10	-0.16	0.05	0.65	1.00				
Mark-3	-0.44	-0.54	-0.44	0.08	-0.30	0.05	0.73	0.66	1.00			
Perf-1	0.30	0.29	0.25	0.30	0.21	0.03	-0.22	-0.17	-0.21	1.00		
Perf-2	0.34	0.31	0.30	0.04	0.23	0.05	-0.30	-0.22	-0.26	0.86	1.00	
Perf-3	0.41	0.35	0.35	0.01	0.28	0.01	-0.27	-0.32	-0.31	0.73	0.78	1.00

*Measurement Model*

Construct	Item	Lambda	t-value	R <sup>2</sup>
<b>Relational Coordination</b>	1	0.74	14.33	0.55
	2	0.83	15.98	0.69
	3	0.83	15.27	0.69
<b>Contract-hierarchy Coordination</b>	1	0.69	13.38	0.48
	2	0.72	15.56	0.52
	3	0.85	19.19	0.72
<b>Market Coordination</b>	1	0.84	22.79	0.71
	2	0.76	22.37	0.58
	3	0.89	18.49	0.79
<b>Relationship Performance</b>	1	0.90	19.15	0.81
	2	0.93	20.78	0.86
	3	0.78	17.98	0.61

# ***CORPORATE GOVERNANCE AND SUBSIDIARITY***

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## **Abstract**

Both the governance and the principle of subsidiarity have been thoroughly discussed in political contexts, however, their application to firms have been to varied degree. Corporate governance has been applied to firms regarding as the set of processes, customs, policies, laws and institutions affecting the way people administer, direct or control a corporation or business firm, whereas the application of the subsidiarity principle to corporations, has been limited. We believe that both of these two can have interesting aspects and implications also for corporations.

The purpose of this paper is to discuss the parallelism between political/administrative and corporate structures and governance, under the light of the principle of subsidiarity. The focus is on an explanation of the definition and role of an organization which can be a natural example of the role of subsidiarity in governance. This paper is a first approximation to the development of a governance model based on subsidiarity founded on theory of the firm and theory of action.

With this paper we are not developing the consequences of this new way of looking at the subsidiarity principle, but we believe that there are several interesting conclusions which can be derived from it for corporate governance – and also to other forms of governance, since the theory of action, on which we have based our analysis, is valid for any human community.

**Key words:** corporate governance, decision making, governance, principle of subsidiarity, theory of the firm.

## **Introduction**

The concept of governance originates from political theory and was initially defined in relation to territorial or political government. Governance was thus given a meaning of the way power is exercised in “the management of a country’s economic and social resources through application of responsibility, participation, information availability, transparency and the rule of law” (Saunier and Meganck, 2009). However, governance can be applied to any human society or organization besides that of a political community, including both formal and informal institutions and process. In relation to corporations the concept of governance has been applied as the set of processes, customs, policies, laws and institutions affecting the way people direct, administer or control a corporation or business firm.

Theories of governance comprise and lead to various aspects and principles, amongst others the principle of subsidiarity, which has become well known due to the initiatives of the European Union, especially the Charter of Fundamental Rights of 2002. As a political principle, subsidiarity has been used to allocate powers within the Union, and to other situations in which there is a hierarchy of authorities with different responsibilities on the results of separate but interrelated decisions – for example, in environmental issues or, in general, in situations of market failure. However, the principle can be applied to other actors, or better, to all human organizations, although, so far, the application of subsidiarity to the governance of corporations has been limited.

We believe that the ideas, theories and experiences of the political version of the subsidiarity principle can be fruitfully applied to corporations. Therefore the purpose of this paper is to discuss the parallelism between political/administrative and corporate structures and governance, under the light of the principle of subsidiarity. The focus is on corporate governance, or better, on an explanation of the definition and role of an organization which can be a natural example of the role of subsidiarity in governance. This paper is a first approximation to the development of a governance model based on subsidiarity founded on theory of the firm and theory of action.

We begin with an introduction to the concepts of governance and subsidiarity to be followed by a discussion of the process of decision making in organizations, although many of the conclusions of our analysis can be translated to broader societies. The discussion will then be put in relation to the application of the principle of subsidiarity within a firm.

## **Governance and subsidiarity**

Governance can be defined as the “sum of the many ways individuals and institutions, public and private, manage their common affairs” (Commission on Global Governance, 1995) and it can be applied to informal arrangements which people and institutions have agreed upon or perceived to be in their interest. A narrow definition of governance can be characterized by “decisions issued by one actor that a second is expected to obey” (Kahler and Lake, 2004), whereas a broad definition can include “all modes of coordinating individual action, such as hierarchies, networks, associations, or markets” (Knill and Lehmkuhl, 2002). In line with the last definition governance can be identified as “the framework of social and economic systems and legal and political structures through which humanity manages itself” (World Humanity Action Trust, 2000).

In a limited way, governance in relation to companies, corporate governance, deals with “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer and Vishny, 1997). In addition to return on investments Demb and Neubauer speak of the rights and wishes of stakeholders and the processes by which corporations are made responsive to them (Demb and Neubauer, 1992). Koehn, in turn, argues for a broader definition stating that corporate governance “encompasses issues ranging from how companies should behave on the Internet and how management can best motivate employees and board members, to how institutional investors should discharge their responsibilities to the beneficiaries whom they represent” (Koehn, 1999). Federowicz discusses sound corporate governance, and defines it as “a set of institutionalized (but not only formal) settings and practices that orient the key actors of decision-making towards the sustainable development of the firm” (Federowicz, 2003).

The principles of subsidiarity, has often been characterized in a political context, or, as defined by Stöhr (2001), “a social order, oriented against the totalitarian and centralist state, in which the larger community acknowledges the potentials of the subordinate ones and

exercises only those tasks which the latter cannot fulfill". Stöhr further compares the principle to a social system, which is structured from below with the family and the primary groups, characterized by personal contact and transparent structures. The secondary groups have a local or functional character and, finally, the state as a comprehensive political community (Stöhr, 2001). Handy argues that it is even "a moral duty to delegate" and claims that it is "an injustice, a grave evil and disturbance of right order for a larger organization to arrogate itself functions which can be performed efficiently by smaller and lower bodies" (Handy, 1999).

Usually two explanations have been given as reasons for applying subsidiarity in public or private governance:

1) The respect of the dignity and the rights of the citizens (as individual persons or as members of low-level groups: families, local communities, voluntary associations, etc.), rights that they have before their participation in the governance relationship (Melé, 2005).

2) The satisfaction of the citizens' preferences to the greatest extent possible (Schäfer, 2006). This means that the citizens have their own interests, which only partially coincide with the goals of the society or organization in which they form part.

The first of these reasons is the basic one, and it has been discussed during centuries in social and political ethics through issues like the just distribution of costs, benefits and burdens in the common endeavor (Follesdal, 1998) and many others. But the second one is none the less as important.

When applied to the issues of governance, subsidiarity is related to "the degree to which governance ultimately responds to the wishes of those who are governed" (Kahler and Lake, 2003) or "the mechanisms by which the citizens and groups define their interests and interact with institutions of authority and with each other" (McCawley, 2005). This means that the individuals have their own personal values, interests and preferences that usually can only be satisfied in relationship with other people, in 'natural' (family, city, country) or 'artificial' communities (firms, clubs, associations). In fact, both points of view are connected: the dignity of the persons and their personal rights are one of the justifications of their legitimate preferences or interests. Therefore, the arguments presented when discussing the second reason cannot be only arguments about the 'comparative efficiency' (Follesdal, 1998) of the different decision makers –the individual alone, the family, the small group, the city, etc., until the country or the global society–, but also about the basic rights of all of those implied.

As we said before, both justifications of subsidiarity are reasonable. Nevertheless, they are not compelling, especially when applied to private organizations, like business firms. Obviously, persons have dignity and rights, but must they be understood as limitations to the principles and rules of corporations? Is subsidiarity a limit to the optimal governance of corporations, in the name of the rights and/or preferences of the owners, managers, employees, suppliers and customers? Or should subsidiarity be founded on grounds of efficiency and profit maximization?

In the following sections we will present an explanation of the decision making process in the firms that can serve as a foundation of the principle of subsidiarity. It is not a theory of corporate governance but can be useful as a framework of a theory of governance, in which subsidiarity can have a new interpretation.<sup>61</sup>

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61 The next sections use the ideas of Pérez López (1991, 1993); cfr. also Argandoña (2008a,b,c).

## Decision making in organizations

To be able to discuss decision making in organizations one must identify what organizations are. An organization (a business firm, a not-for-profit institution, a private association, a club, etc.) is “a group of people who coordinate their actions to achieve objectives in which they all have an interest, albeit for different reasons” (Pérez López, 1993b, 13). In an organization we find a group of people, all of them with “different motives” to join the group<sup>62</sup>; a common objective or set of objectives which they would not be able to achieve, or would find more difficult to achieve, without the combined efforts of the other members (Rosanas, 2008); some form of coordination or harmonization of the individual actions to get those common objectives<sup>63</sup>, and a purpose of continuity or permanence along time.

Based on this definition of an organization, we will here give a brief explanation of the core of any decision. Let us assume that an ‘active’ agent (e.g. a manager) makes a decision that implies his or her relationship with a ‘passive’ agent (for example, an employee), to whom the active agent gives, for example, an order to do something. What the active agent expects from the decision is one or several outcomes, which may be: 1) extrinsic (the consequences for the active agent of the response from the reactive agent); 2) intrinsic (something the active agent learns or the satisfaction he obtains from performing the action, e.g., the satisfaction of managing or learning how to manage subordinates); and 3) external (something the reactive agent, or employee, enjoys or learns) (Pérez López, 1991a, 28).

This, in turn, gives rise to three possible motives for action, from the point of view of the active agent: 1) extrinsic motives (in our example, the expected reaction of the passive agent, as intended by the decision maker); 2) intrinsic motives (the expected satisfaction and the learning of the active agent as derived from the action), and 3) external motives (the expected consequences of the action on the passive agent or on other people). In any case, whether the active agent intends it or not, her action will always give rise to each of the three types of outcome, and “each of these outcomes can be a powerful source of motivation; that is to say, each can be directly intended by the agent and so can be a motive to act” (Pérez López, 1993b, 52).

An action can therefore be evaluated by the decision maker using three separate criteria: 1) effectiveness, measured by the satisfaction that the expected extrinsic outcome provides to the active agent; 2) efficiency, measured by the extent to which the agent is ratified from the internal outcome; and 3) consistency, measured by the extent to which the change in the reactive agent resulting from the interaction makes it easier or more difficult for the active agent to obtain the desired response in future interactions (Pérez López, 1991a, 36-38)<sup>64</sup>.

It is important to realize that effectiveness, efficiency and consistency can operate in different directions. For example, an action plan may be effective (the employee does what the manager tells him to do), yet inefficient (the manager becomes increasingly dissatisfied with telling people what to do, or in so doing damages her competencies as a manager) or

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<sup>62</sup> “A kind of cooperation (...) that is conscious, deliberate, purposeful” (Barnard, 1938, 4).

<sup>63</sup> “A set of possible ways of coordinating human action, or possible joint action plans, the result of which becomes apparent when it is implemented repeatedly” (Pérez López, 1981a, 12).

<sup>64</sup> We follow here the terminology of Pérez López, although it does not coincide with the one of other authors.



inconsistent (the reactive agent is increasingly reluctant to respond as desired)<sup>65</sup>. And if an action plan is inconsistent, it will give rise to ‘negative learning’ on the part of the active agent, in that it will reduce the agent’s ability to see what is really important in the interaction, probably without the agent’s realizing it until it is too late (Pérez López 1991a, 55).

In our example, we assumed that the manager (the decision maker): 1) wants to solve a present problem by making a decision, 2) which entails interacting with other people in the organization (other managers, employees, customers, suppliers, etc.), 3) bearing in mind that he will have to make other decisions in the future involving him and other people (not necessarily the same ones as in the previous decision), and 4) that the decision he makes now will affect his ability to make decisions in the future and also 5) the reaction of the people affected by his decision, as well as, 6) in some cases, the reaction of other people (Pérez López, 1998, 201). And, from point 3 on, he or she must take into account that any changes in the effectiveness, efficiency or consistency of an action will change the agent’s ‘decision rule’, i.e. “the set of operations (...) by which an active agent chooses an action” (Pérez López, 1991a, 28)<sup>66</sup>.

We mentioned before three criteria that a manager must consider in any decision: its effectiveness (the extent to which the decision solves the present problem), its efficiency (the extent to which it improves the manager’s ability to make similar decisions in the future), and its consistency (the extent to which it maintains or improves the ability of the other agents involved to respond appropriately to future decisions). Likewise, when considering the activities of an economic organization or firm as a whole, the manager must monitor three ‘state variables’ (Pérez López 1993b): 1) its effectiveness (profitability), i.e. its capacity to create a difference as big as possible between what the company receives for providing a service to consumers and the resources it employs, roughly equivalent to the value added it makes; 2) its efficiency or attractiveness, that is, its capacity to develop their members’ skills and to enhance their satisfaction in order to develop the distinctive abilities that will enable the organization to resolve problems more effectively, or resolve more complex problems, because its members are more aware of the needs to be met and more capable of meeting them; and 3) its consistency or unity, that is accomplished when the organizational members identify themselves with the organization and trust is built up between employees, managers, owners and other stakeholders.

It can be demonstrated that these three ‘state variables’ are necessary for the survival and growth of companies, understood as “groups of people who coordinate their actions to achieve economic results, namely the production and distribution of material goods” in order to “satisfy organizational members’ needs as fully as possible, given the limited resources available” (Pérez López, 1987, 1).

Profitability or effectiveness is a necessary condition for long-term survival of an organization because without it the company will not be able to satisfy its members’ extrinsic motives. A company must offer its employees and managers a salary that outweighs their opportunity cost (the salary and benefits they could obtain in comparable alternative employment), and it must also offer its owners a remuneration at least equal to what they could obtain in the capital market for the same level of risk.

To do this, it must ensure that the aggregate cost of the contributions it receives from its suppliers of resources (including its employees) does not exceed the revenue it obtains

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<sup>65</sup> An extreme example would be a decision to cut off the branch of a tree in order to get at the fruit: the action is highly effective but totally inconsistent. Another example would be a manager who abuses an employee’s trust and so makes it more difficult for himself to persuade the employee to collaborate in the future.

<sup>66</sup> That people’s preferences can change during the decision-making process as a result of learning is well known (cf., for example, Kahneman and Tversky, 2000). The possibility of negative learning, however, is often overlooked.

from the sale of its products or services. In other words, by producing goods and services and selling them in the market, a company must be capable of obtaining the material means with which to satisfy the extrinsic motives of those who contribute capital, labor and other resources. In short, a company's effectiveness is measured by the difference between the resources it obtains from the sale of its goods and services and the resources it employs in producing them, which roughly corresponds to its profit (or better, to its value added).

However, effectiveness (or profitability) is not a necessary condition for a company to exist, nor is it a measure of a company's success as an institution. "The necessary and sufficient condition for an organization to exist is that there be a group of people who are motivated to belong to the organization, with all that this implies. An organization must choose its goals so that the goals conserve and strengthen those motivations, as otherwise the organization will disintegrate" (Pérez López, 1981, 5).

To achieve this, an organization must deliver at least some of the benefits, in terms of attractiveness, which motivate people to contribute. First, the jobs a company provides must not be unpleasant for its employees or at least not so unpleasant as to make them unwilling to make the effort that must be made for production to continue (and this is valid also for the owners and the other stakeholders). And second, employees must be able to learn from their work in a way that makes them more effective as employees in the future (Pérez López, 1991a, 90). Up to a point, therefore, there is a trade-off between effectiveness and efficiency, insofar as a company does not need to pay as much for pleasant work as for unpleasant work<sup>67</sup>.

Lastly, a company must also consider how the employment it provides affects consistency or unity. As an economic institution the company needs to be both effective (profitable) and efficient (attractive); yet neither will guarantee survival: it depends on consistency. And survival is not an economic problem that can be solved by designing a control system to ensure that the organization's operational capabilities are used to satisfy the needs of its members, because designing any such system "is absolutely impossible if organizational members learn – operationally [on the plane of efficiency] or morally [on the plane of consistency] – from their actions in the organization (...). Achieving optimal economic outcomes is not an economic problem; it cannot be solved by manipulating economic variables alone. It depends on psychological and ethical variables. Only if these latter variables were fixed and unaffected by learning processes (...) could the optimal economic outcome be achieved through purely economic processes" (Pérez López, 1987, 12-13)<sup>68</sup>.

Every decision within the organization "must therefore respect certain minimum levels of effectiveness and attractiveness [or efficiency]" (Pérez López 1981, 14): "any organization, in order to survive, must deliver at least some of the benefits that motivate people to contribute" (Pérez López, 1993a, 3). And any decision that meets these minimum requirements (i.e., any decision that does not cost more than it earns and that is not unpleasant for the people who have to implement it) will be feasible. But "once the choice has been made, however, a series of consequences will be felt throughout the organization, whether or

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<sup>67</sup> Only up to a point, however, as there will be limits to this trade-off. If a worker has material needs, the company will have to pay him a wage, even if the work is very pleasant and satisfying. And if the work is very unpleasant, paying a higher wage will soon lead to diminishing returns in terms of motivation.

<sup>68</sup> On the limitations of formal control systems, cf. Rosanas and Velilla (2005).

not those consequences have been taken into account in the decision” (Pérez López 1981, 13). The efficiency and, above all, the consistency of the organization will be altered.

### **Corporate governance and subsidiarity**

How does all the previous discussion affect governance? We suggested that all activities in the firm (strategy, policies, management systems, operations, structure, etc.) should take into account three criteria effectiveness, efficiency and consistency or unity. Obviously, governance should also take into account these three criteria.

We said before that we are interested in “the degree to which governance ultimately responds to the wishes [or the motives] of those who are governed” (Kahler and Lake, 2003). This is important not only because this is the way to win the disposition of those people (owners, managers, employees, suppliers, clients, etc.) for cooperating in the organization, but mainly because “the necessary and sufficient condition for an organization to exist [over time] is that there be a group of people who are motivated to belong to the organization, with all that this implies. The organization must choose its goals so that the goals conserve and strengthen those motivations, as otherwise the organization will disintegrate” (Pérez López, 1981, 5). And this should also be the goal of corporate governance –or, at least, one of its goals.

Whatever the objectives of an organization may be, managers must achieve them. To do this, they must persuade the members of the organization, i.e., the people who possess the human and material resources which the company needs (owners, employees and, to a certain extent, suppliers, customers and other stakeholders), to work together.

A “group of people” can become an organization either because one person summons others to a common task (for example, an entrepreneur hires several employees), or as a collective initiative of the group (several friends decide to create a sports club, just for fun). In any case, once the group is organized, one or several persons (the principal) should exercise authority over the others (the agent): this is why usually the issues of governance are focused from the viewpoint of the person or persons with authority. Nevertheless, subsidiarity is better understood if we present an organization in which both parties are simultaneously principals (active agents) and agents (reactive agents), because the interactions are reciprocal (Rosanas, 2008; cf. Simon, 1947).

Consider, for example, in the situation we presented before: the manager (the active agent) has a problem (a non-optimal situation that she wants to change, or an opportunity she wants to avail herself to: for example, to process the order of a client) that she expects to solve giving an order to an employee (the passive agent) whose result will likely be the solution of the problem. But the situation may be reversed: the employee (now the active agent) has a problem (he needs some income, for example) that he expects to solve being hired by the manager to do a job that includes receiving an order to do something for the sake of the company or of the manager herself (the passive agent).

Now, we may apply to this situation our previous reasoning: the employee (the active agent) will get the expected external results (the salary), plus other results, both extrinsic (the manager’s praise or censure), intrinsic (the satisfaction for the work done and the learning of new abilities and knowledge) and external (the manager will have her problem solved and the ultimate client’s needs will be satisfied). The employee must take into account the three criteria: the effectiveness of the action (the solution of his problem, provided by the salary), its efficiency (the satisfaction and operational learning obtained in the job) and its consistency (the creation of the conditions that allow the present relationship with the passive agent, the manager, to continue in the future: and not only with this manager, but with any other person,

in this firm or in other firms). And again, the behavior of the employee must provide him with at least a minimum of effectiveness and efficiency, but also with a development of his consistency. This means that the decisions made by subordinates also affect the effectiveness, efficiency and consistency of the decisions made by their superiors and thus also the organization as a whole. In other words, we need to consider the three dimensions from the point of view of both agents, because both are simultaneously active and reactive. This applies equally to the relationship between owners and managers, or even between owners and other stakeholders (customers, suppliers, etc.).

Employees usually do not worry about governance, but companies do, and they must take into account the other side of the relationship with the employees, as we have just explained. Herbert Simon asked years ago: “How are the employees of firms motivated to work for the maximization of the firm’s profit?” (Simon, 1991, 26). The usual answer to this question refers to ‘incentives’, i.e. extrinsic motivation. But this does not explain “how employees are induced to work more than minimally, and perhaps even with initiative and enthusiasm” (Simon, 1991, 26). For that, we must invoke intrinsic motives, which is what has been done in the literature<sup>69</sup>, or external motives – other-oriented behavior, social behavior, altruism, etc.<sup>70</sup>

Our notion of external motivation differs, however, from the traditional concept of altruism, insofar as the altruist is assumed to obtain some personal satisfaction from the well-being of others<sup>71</sup>. That form of altruism would be understood, in our model, as a form of extrinsic motivation, in that it relates to actions from which the agent expects to benefit. External motivation, as we understand it, is governed entirely by the well-being of the reactive agent, regardless of the impact on the active agent. Moreover, this is not merely a hypothesis; it is stated as a condition of long-term equilibrium in the interaction between agents, namely, to meet the demand for consistency. “For the organization to work well, it is not enough for employees to accept commands literally. (...) What is required is that employees take initiative and apply all their skill and knowledge to advance the achievement of the organization’s objectives” (Simon, 1991, 32). Or as Melé (2005) points out, the employees must act as entrepreneurs and have initiatives for the good of the organization.

How does this identification of the employee with the goals of the company come into being? According to the action theory we have presented, an employee may identify with the company for any of the three types of motives mentioned earlier: extrinsic outcomes (higher pay, for example), job satisfaction, or a sincere concern for the impact his actions may have on others. This is how Pérez López explains it: when negotiating a sale, a sales representative “will be motivated by the money he expects to earn (extrinsic motives) (...); if he is a person who likes his profession, intrinsic motives will likely prompt him to make a special effort to

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69 The distinction between extrinsic motives (satisfaction provided by the environment) and intrinsic motives (satisfaction internal to the agent) has long been accepted in social psychology and sociology (cf., for example, Deci 1971, Staw 1976), and also in economics (cf., for example, Bolton and Ockenfels 2000, Fehr and Falk 2002, Frey 1999, Osterloh and Frey 1997).

70 Cf. Frey (2003), Frey and Meier (2002), Schelling (1984), Stark (1995).

71 As Rosanas points out (2008, 457), external motivation is rational, not just emotional, and may have the dimension of a moral obligation, as Sen suggests (1977).

sell (...) [and] if he is an honest professional, transcendent [or external] motives<sup>72</sup> –the desire to provide a service to the customer, i.e., satisfy the customer’s needs while at the same time satisfying his own and the company’s needs– will also encourage him to act in a way that ensures the sale is completed” (1993b, 107).

But the first two motivations have a limited capacity to secure the employees’ loyalty to the firm. Essentially, “the only way an organization can become both more attractive and more effective is if its members internalize the organization’s goals. Such internalization requires (...) transcendent [or external] motivation (...), bringing an organization’s ultimate purpose (to satisfy human needs) into line with the motives a person must have in order to develop his own potential (to help satisfy the needs of others, i.e., acting for transcendent [or external] motive)” (Pérez López, 1993b, 103). And having these motives depends not only on “what a person does” (effectiveness) or “how he does it” (efficiency), but on “what he does it for” (consistency) (Pérez López, 1993b, 104).

Consistency is achieved when there is a climate of trust in the organization (Melé, 2001; Reichheld 1995; Rosanas and Velilla, 2003). A climate of trust requires both “functional trust”, which “has to do with the trustor’s assessment of the operational knowledge and abilities of the trustee”, and “personal trust”, which “has to do with the trustor’s assessment of the quality of the trustee’s motives” (Rosanas and Velilla, 2003, 56), i.e., whether the trustee’s decisions are made for external motives, seeking the good of others. This means that consistency creates trust.

As we have said, an organization’s decisions must be minimally effective and efficient in order to maintain the incentive for employees (and owners, managers and other stakeholders) to continue to collaborate for extrinsic and intrinsic motives. An organization must also ensure that any increase in extrinsic or intrinsic motivation in some of its members does not lead to a decline in such motivation in others. This means that all employees must have at least a minimum of external motivation, i.e., consideration for the needs of the company and of other persons – not because of the consequences this may have for their personal utility, but because of the consequences it is likely to have for the other persons. This assumes that the agents are capable of evaluating the impact their actions will have not only on themselves (the effectiveness and efficiency of their actions), but also on others (the consistency of their actions).

Decision making is the result of a combination of motives, some spontaneous, others rational. Spontaneous motives demand an immediate decision, based on the expected extrinsic outcome (effectiveness). In the interest of efficiency and consistency, however, the agent may make rational decisions, resisting the appeal of spontaneous motives. “The mechanism that helps people make decisions that further their own development [i.e., decisions that are

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<sup>72</sup> Pérez López (1991a, 1993b, 1998) calls these external motives “transcendent”, because “they refer to values that transcend the individual” (Rosanas, 2008, 455).

consistent] is the mechanism classically known as moral virtues” (Pérez López, 1993a, 7). By practicing moral virtues, a person learns to be ethical and develop her ability to act ethically. Moral virtues strengthen a person’s “capacity for self-governance” or “self-control” (Pérez López, 1991c, 3). This capacity is manifested in “something as basic as choosing an alternative that will bring less economic benefit [i.e., a less effective alternative] than one that could have been chosen instead” (Pérez López, 1991b, 6). An agent acquires and strengthens moral virtues when she strives to achieve what is good for another person “precisely because it is ‘good’ for the other person (not because of any other consequences of the action relating to intrinsic or extrinsic motives). By ‘good’ we mean that the action: 1) satisfies the other person’s needs; 2) is intended to help the other person learn (to ‘do what he does better’); 3) is intended to help the other person gain in moral virtues” (Pérez López, 1986, 17).

## Conclusions

In this paper we have developed a theory of the firm based on a theory of decision making that implies a complex set of relationships between the organization and its managers and directors, on the one hand, and the employees and other stakeholders, on the other. We defined the firm as a community of people with different motivations and interests, with a common goal to be attained by all of them and with a structure and organization that give place to the governance mechanisms, institutions and rules. And we showed that the managers need to take into account all these motivations, not just as an external demand or expectation of the society or of the stakeholders, but as a condition for the success of the firm, measured not by one dimension, profits, but by three dimensions: 1) effectiveness or profitability; 2) attractiveness, i.e. making the firm a place pleasant enough for the persons and helping them to develop their distinctive capacity that are necessary for the future success of the firm, and 3) consistency, i.e. the development of moral attitude, values and virtues of all the persons in the firm (owners, managers, employees, suppliers etc). This implies the identification of all these people with the goals of the company.

We think that this viewpoint has many implications for corporate governance: for example, it must comply not only with one criteria, profitability, but with three criteria, that are not reducible to a unique one. This is not what the traditional theories of the firm propose, and it does not make the task of governing the corporations easier. Nevertheless, we think that this adds realism to the theory, and especially that it provides a unified framework for the discussion on corporate governance, as well as, facilitates the understanding of the role of ethics in governance issues.

In a certain way, subsidiarity has an important role in this new way of understanding corporate governance. If companies are communities of people, if the motivations of these people should be considered in the process of decision making and if the learning and reactions can change the “rules of the game” and the results of the firms’ strategic policies and actions, then we should give these people a certain prominence in the decision making process, especially if we understand that the actions in the corporation are bidirectional: both agents, the manager and the employee, are simultaneously the active and the passive agent, both learn, and the results of these learning are felt by both of them – as well as by the organization, and by the other stakeholders.

We think that this adds new insights to the theory of corporate governance and especially to the role of the principle of subsidiarity in it. The foundations of this principle, specifically the dignity and rights of the persons, are the same, but the way of understanding why this is important may be different. In this paper we have not develop the consequences of this new way of looking at the subsidiarity principle, but we think that there are many

interesting conclusions which can be derived from it for corporate governance – and also to other forms of governance, because the theory of action in which we based our analysis is valid for any human community.

And this will also have important consequences for persons, companies and countries. Subsidiarity indirectly requires that *individuals and inferior social groups do as much as they can*. It carries a positive requirement to be entrepreneurs, to have initiatives and to strive to obtain whatever one can in accordance with the maximum extent of one's capabilities. In other words, the principle of subsidiarity entails both freedom and the corresponding responsibility and accountability" (Melé, 2005). It is merely by "handling their own choices that people learn to grow and be free. Choices, in fact, are our privilege, although, they come distinguished as problems, & stealing people's choices is wrong" (Handy, 1999).

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# ***NETWORK GOVERNANCE: NETWORK CLOSENESS AND FIRM PERFORMANCE***

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## **Abstract**

Network governance is defined as a firm capability, with a network goal. Network governance is firm use of resources, information and influence to change the position of any firm within a network, so as to increase the long-term profitability and adaptability of the network relative to other competing networks.

This paper elaborates network governance on the basis of information, influence and resource deployment. A network structure is defined in terms of boundaries and differentiation of interdependencies between firms. A theoretical model is developed, which places network governance within a broader nomological context of firms and business relationships within a network structure. One hypothesis of the broad model is examined empirically in the Keiretsu networks of Toyota and Mazda. We find a strong correlation between network centrality and firm profitability. This result suggests further research is worthwhile on the theoretical model. The final sections of the paper discuss the limitations of the research and future research.

**Keywords:** network governance, network capability, network structure, centrality

## **Introduction**

In the commercial world, business networks formed of connected firms have taken on greater importance (Achrol and Kotler, 1999). Why do firms create networks, rather than maintain arms length market transactions? Networks allow risk sharing, lower transaction costs, and are always based on an opportunity for joint value creation (Jarillo, 1988). Also, the flexible and adaptive nature of networks allows firms to react quickly to environmental change (Miles and Snow, 1984).

In a business network, firms are connected by interactions (Håkansson and Snehota, 1995). The interactions are based on exchanges of resources, products and information. The exchanges connect the capital equipment and activities of individual firms (Johanson and Mattsson, 1987). Developing, building and maintaining these connections between firms requires executive and managerial time and resources. However, equally, the relationships formed by executives across a network create the conduit for information flow and so the governance of the network.

Williamson (1996) defined governance as the “identification, explication, and mitigation of all forms of contractual hazards”. Governance in a network setting evidently extends further

than contractual issues, because networks extend through time (Medlin, 2004) and contracts are always incomplete (Macneil, 1974). Thus, network governance is a different concept to firm level and relationship governance, but evidently related.

In this paper we explore the role of network governance and network structure on the way firms achieve their profit goals. This requires an elaboration of the concepts of firm networks and their governance. The paper is structured in the following manner. First we discuss the concepts of networks and governance. We begin by elaborating firm networks and their structure. Next we introduce the concept of governance and explore how access to strategic information shapes network structure. In the second section we present a theoretical model of network structure, governance and firm profit and develop an hypothesis to examine the association between network structure, a result of governance, and firm profit. The third section introduces our methodology, including the keiretsu of Mazda and Toyota and an introduction to graph theory and data collection. Next we discuss the results and draw conclusions concerning the role of network governance. In the final two sections we discuss limitations and future research.

## **Firm Networks and Governance**

In this section we discuss the nature of firm networks; the goals of firms in joining a network and the boundaries and structure of a network. Subsequently we discuss network governance on the basis of these network concepts.

### *Networks*

A network is a set of actors connected by their activities. Thorelli (1986) defined a network generically as ‘nodes’, and ‘links’ manifested through some forms of interaction. This definition highlights the importance of interactions in defining the actors and their relative position to each other. Interactions create the network structure. Of course, as interactions are on-going and changing, the positioning of the actors, and so their interdependencies, is constantly in flux. Further, as the network is an evolving structure, the network pre-exists any single firm (Håkansson and Snehota, 1995; Ritter, 2000).

In a business network, interactions are based on exchanges of resources, products and information. The exchanges connect the firms capital investments and their activities (Johanson and Mattsson, 1987). The connections across a network of firms creates a resource constellation and an activity pattern (Håkansson and Snehota, 1995). The operation together of the activities and the resource constellation across the network embeds raw materials and supplies into final products for end customers. The expected future demand of final customers is the reason for the firms to create a network.

Consider the interactions: they are on-going. The network extends through time (Medlin, 2004). The interactions are based on connected capital investments by the firms (Medlin and Möller, 2009). Developing, building and maintaining these capital connections between firms requires executive and managerial time and effort in shaping the inter-firm business relationships (Johanson and Mattsson, 1987). The connection of relationships across a network creates the conduit for information flow.

Why do firms join networks? Networks offer benefits, as the connections between firms provide information and spread risk (Jarillo, 1988). Networks join the capital equipment and

resources of firms into greater constellations, more able to compete. A network competes with other networks (Thorelli, 1986), and when a firm joins a network the risk is spread across the network. The lower the barriers of entry to an industry, and the greater the level of capital investment and risk, the more likely firms will seek network membership.

Each firm brings a different resource, production technology, or market access to the network (Håkansson and Snehota, 1995). Thus, each firm has different goals within the network (Halinen, 1998). While there is interdependence between the firms in the network, each firm remains self-directed and to some degree autonomous.

Implied in the above paragraphs are two very important provisions. First, all firms in the network must benefit, that is each firm must achieve long-term profit or they will leave. Second, there must be a common commercial interest between the firms that calls them together and provides a commercial logic to the cooperative undertaking.

However, both cooperation and competition exist beside each other in a network of firms (Thorelli, 1986). The firms compete for their relative share of the network profits. The firms also compete to maintain a strategic position within the network (Jarillo, 1988). But what is *strategic position* in a firm network? All strategic positions are relative to the network boundary. Where is the boundary? That is a strength of a firm network: the network boundary shifts as the firms adapt. New firms with specialist resources can be brought into a network to resolve specific problems (Jarillo, 1988); equally positions change within the network as the firms adapt. The network structure is always changing as interdependencies between the firms adjusts.

## Network Structure

Network structure is the pattern and strength of connections between firms. Network structure depends on the relative importance of the interdependencies between the firms and on definitions of network boundaries. Importantly, variations in structural interdependencies create network boundaries, and boundaries affect interpretations of internal structure (ie position).

With regard to boundaries a useful concept to consider is the distinction between ‘*a*’ network and ‘*the*’ network. A network of firms exist when a boundary is imposed. *The* firm network exists without boundaries. Ford and Håkansson (2006b) note that all firms are connected within *the* single network. Further, *the* firm network is spread through time (Medlin, 2004), with a past and a potential future. In *the* network of firms all firms are eventually connected to each other and all are competing to hold and enhance their position in *the* future network. In *a* network, firms also cooperate and compete to some degree to maintain and enhance their position in their future network, however boundaries also play an important role in network position.

Executives and managers can only influence firms near to them within the network, because they face the problems of bounded rationality (Simon, 1979) and limited resources. As a result executives, in managing their firm’s and relationships, impose network boundaries in time and space. Firm and relationship strategies are bounded in time, with presumed capital investments, and activities directed at specific markets. In this limited perspective of *the* network, many separate networks are present: each is *a* network. The open question is: how many business relationships should be included within a network?

The structure of interdependencies between the firms in a network provide at least two ways to configure boundaries. First, the interdependencies exist for the sake of a common purpose: the end customer. Managers recognize the end customer, to some degree, and can apply the concept to configure boundaries. This is the concept of a value net (Parolini, 1999), where firms are focused on providing value to specific customers.

Second, the nature of interdependencies between firms also provides natural network boundaries. Interdependencies between firms extend from (1) high and co-committed through to (2) almost one sided contract-hierarchies and around to (3) completely independent, as with market exchan (Aurifeille and Medlin, 2009). Evidently the existence of market exchanges between firms acts as a network boundary enclosing those firms that are highly interdependent, and excluding firms that operate independently in a market context. The existence of pure competition, or almost pure, connections acts naturally as a network boundary.

In addition, firms connected by contract-hierarchy to a lead firm within the network are inside the boundary. The follower firm in these relationships has little influence and simply follows the direction of the lead firm. Here we draw a strong boundary beyond the following firms, however in reality there is a more indistinct boundary as interdependencies are always changing. For example, a following firm has countervailing power (Etgar, 1976), which is based on the limited dependence by the leading firm. However, the follower firm also has the potential to shift to another network. Thus, the boundary is clear on the present commitment of the follower firm, whether towards a network or in the direction off another network.

Evidently, the commitment of the follower firm strengthens the boundary affect, at least while commitment continues.

Apparent within the preceding discussion is not only the idea that the interpretations of boundaries must continually shift; but that there are central firms in the network structure. That is, there are central firms in secure positions and other firms in less secure network positions. There can be inner-partial boundaries and an outer network boundary. Here we approach network structure as a question of position relative to boundaries, where variations in position and strengths of interdependencies inside a boundary influence network position.

Thorelli (1986) and Ford and Håkansson (2006a) remind us that all positions in a network are a matter of relativities. The power to change another firm's position in a network is evidently a key ability for influencing network membership. Thorelli (1986) comments that all positions are a matter of power, defined as the "ability to influence the decisions or actions of others" and that power is rarely uni-lateral, rather power like position is a relative matter. Cook and Emerson (1978) report an empirical association between power and network position, with power being an attribute of position. There are at least two ways that more central firm in a network can influence network structure, that is firm position.

First, more central firms command greater access to information (Jarillo, 1988), and so are aware of significant change before other firms. Information, and especially information of external changes driven by end customers and the resulting strategic changes of firms, allows the central firms to position themselves with their resources and activity connections into more profitable positions in a network.

Second, firms with large capital investments and long investment life-spans cast a shadow from the future (Axelrod, 1984) that acts as a form of 'environmental power' (Gaski, 1984; Tedeschi and Bonoma, 1972). These firms do not need to use their environmental power. The mere recognition of the existence of environmental power is enough to constrain re-positioning by other firms. These central firms, that command environmental power, have a greater influence over other firms relative position in a network.

Interesting in the two ideas above is the question of cause and effect; for network position is necessarily highly interrelated with information access/quality and power/resource application. However, the arrow of time helps disentangle cause and effect to some degree, for while power/information and position are necessarily highly correlated, '*the*' network and '*a*' specific network both have a past. In other words joining and moving into central positions in a network requires entering '*a*' network, or creating '*a*' network. Since all firms are already in '*the*' network or are created to join in '*the*' network, the new member must be invited into '*a*' network; the boundary is shifted so that specialist resources can be brought in to resolve specific problems (Jarillo, 1988). In the case of '*a*' network initiator, other firms must change their allegiance and interdependencies to other networks to join, but already the initiator firm is in a key position. Thus, in both cases, network position is more prominent than information and power in the cause-effect association. This argument supports Cook and Emerson's (1978) empirical results in an experimental laboratory study.

## **Network Governance**

Williamson (1996) defined governance as the “identification, explication, and mitigation of all forms of contractual hazards”. This definition points to the central concerns of governance: creating certainty (ie risk reduction) and ensuring profitable outcomes. Clearly governance in a network setting extends further than contractual issues. Contracts are written at a point in time and are always incomplete (Macneil, 1974), but firm networks are dynamic with boundaries and positions in continual flux. Network governance is evidently an analogue concept to firm level and relationship governance, with the same intended outcomes of certainty and profit; but with concerns and methods at a network level. Thus, network profit and certainty are the outcomes and the instruments are an ability to change business relationships, that is to influence autonomous firms network position through information and resources.

We define network governance as the use of resources, information and influence by a firm to change the position of any firm within a network, so as to increase the long-term profitability and adaptability of the network relative to other competing networks. Competence at the processes of network governance is a firm level construct; while the outcome is conceptualized at the network level. A firm is to some degree competent at influencing the position of firms in a network; while sound network governance results in a more effective network capable of greater profit relative to competing networks. Thus the outcomes of network governance, apart from greater network profitability and adaptability, are a change of interdependencies across relationships in the network or a change of boundaries, which can be either inner-partial and/or outer network boundaries.

Network governance is different from the concept of network capability, which has been defined as a firm’s “ability to develop and utilize inter-organizational relationships” (Walter, Auer, and Ritter, 2006). Network capability has the purpose of relationship and firm profitability, whereas network governance has wider concerns than inter-organizational relationships. Evidently network governance relies on network capability, but the purpose is the interests of the collective network. As with network capability, the use of influence is important to network governance.

Network governance can not be achieved by fiat or hierarchical power (Thorelli, 1986). This follows directly from the concept that each firm has autonomy and different goals within the network (Halinen, 1998). Instead there is a reliance on relationships based on trust and mutual gain through interdependence (Easton and Araujo, 1994). Trust allows managers to accept the influence of another firm, whether by a resource allocation or the provision of key information, on the basis that mutual goals will be achieved. Power is not removed from networks because, even if power is not applied, firms will still organize their strategy according to interpretations of power (Thorelli, 1986), especially environmental power.

Thus, influence and the means of influence are central to network governance. Influence can be thought of as the “ability to strongly suggest a specific future deployment of resources and commercial exchanges” (Ito et al., 2009). There is a theoretical link between ‘influence’ and ‘trust’, as both are future oriented and affect expectations of future behaviors. Evidently, influence and trust are characteristics of network governance, which also seeks to generate certainty and grow network profits. In a network, the ability to sustain influence arises from access to information and control of key resources.

## Theoretical Framework and Hypothesis

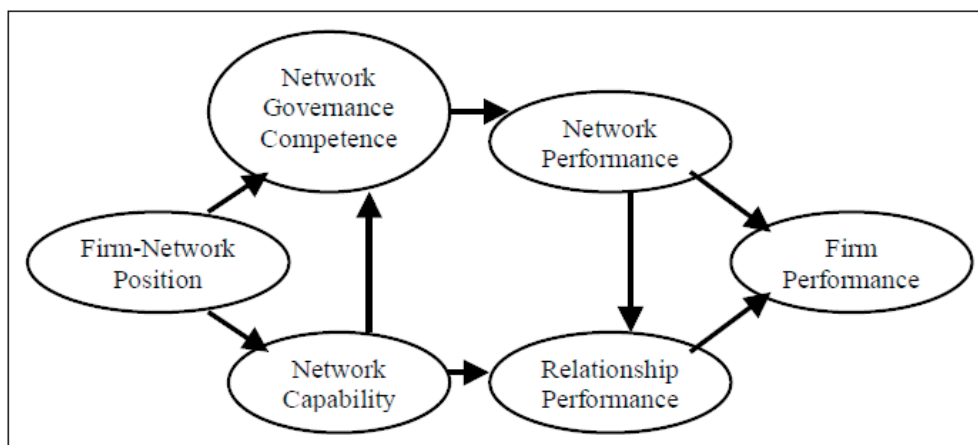
In this section we elaborate a theoretical framework to examine network governance. The outcome of network governance is network performance relative to other networks, but firms join networks and business relationships to achieve their own performance requirements, namely profit and adaptability. In figure one the associations between these three constructs is shown with firm performance derived from both network and relationship performance.

Network performance is hypothesized to be a result of network governance competence. The organization of the network structure determines the efficiency and effectiveness of the application of firms' resources and activities across the network, so influencing how the network performs relative to other networks.

Successful network governance relies on firms within a network working together to ensure matching of specific and heterogeneous resources, capital investments, and activities so that the network competes effectively and profitably with other firm networks. However, changes driven by end customers and competitive changes within other networks will be more critical and will require larger adaptations in the focal firm network, than any change instigated by a firm within the network. These external changes will be the impetus for network governance by central firms in the focal network. The external changes threaten the network, the collective, or provide new opportunities, and so understanding these changes provides central firms with reasons for instigating network changes.

Firms in the network will be successful when they have the capability to match resources and activities within their individual business relationships. Thus, network governance competence is hypothesized to result from two constructs: (1) network capability, which is the capability of a firm to apply inter-organizational relationships to achieving network structural goals; and (2) firm-network position, which provides the firm with quality and access to information, and the ability to apply resources and position to influence firm network positions either directly or via network capability.

**FIGURE 1: THEORETICAL MODEL**



The examination of this detailed theoretical model requires a large study. As a first step we examine a single hypothesis: the association between firm-network position and firm performance. We presume that a positive association between these two constructs would justify a larger study to examine the mediating affects of the remaining four constructs.



Firm-network position is a question of centrality and connectedness within a network boundary. The central firms within a network will be more connected and so have greater access to quality information concerning other firms' strategic changes. These firms should be able to more efficiently and effectively match their resources with other firms. Thus, central firms in a network should be relatively more profitable. This would also suggest that central firms would have relatively more resources available for influencing other firms in the network.

Further, the central firms will have earlier access to information. This means central firms will have a greater period of time within which to consider their strategy, and make changes in either their resource or activity mix or alternately apply influence to change the resource or activity mix of their direct partner firms and so other connected firms.

Thus, on two counts, better and earlier information, firms that are more central in a network should have greater network governance competence than those on the periphery. Thus we expect more connected firms in a network to be more profitable:

H1: More connected firms in a business network will have greater firm profit.

## **Method**

In this section of the chapter we introduce the empirical data and the key constructs.

### *Keiretsu Network Organization*

The keiretsu is a specific network of organizations with integrated and interlocking business relationships and joint shareholdings. As an affiliation of enterprises, the keiretsu plays an important role in the growth of automotive manufacturing in Japan. Lincoln and Gerlach (2004) commented that "the most distinctive form of network organization in Japan – and the most critical to understanding its economy – is the clusters of industrial, commercial, and financial corporations known as the keiretsu "(pp.15).

Both historical and qualitative analyses of the keiretsu have been recently undertaken (Lincoln and Gerlach, 2004; Moloney, 2005). Most of the quantitative approaches have applied graph theory. For example, Brass and Burkhardt (1992) conducted a study of centrality and power in the organization of a newspaper publishing company. Other recent studies have also focused on the analysis of the relationships among the firms in the keiretsu of Toyota and other organizations (Ito, 2002; Wakabayashi, 2003). Ito (2004) examined the correlation coefficients between the production centrality index of a network and corporate performance indicators, such as sales and ordinary profit.

## **Network Boundary**

Given that firm-network position is also a result of the network boundary decision, we decided to test our hypothesis with two cases. In this study we define the boundaries of the keiretsu of Mazda and Toyota by using cross shareholdings. There are three criteria that firms must meet to be considered within the network. First, the firm must be a member of the appropriate value net. That is the firm must supply resources, raw materials or car parts that end up embedded within Mazda or Toyota automobiles. Second, provided firm A and B hold

shares in each other or at least A or B holds shares in the other we assume that these firms are within the network boundary. Third, the firms must all be connected by their cross shareholdings. Thus, if firm C and D are in the value net, and there is a cross-shareholding, but they are not connected to other firms by cross shareholding they are excluded. In graph theory firms C and D are referred to as either ‘singletons’ or ‘independent pairs’.

#### *Data Collection*

Data on cross-shareholdings in the keiretsu of Mazda and Toyota was collected from secondary sources including the Japan Automotive Parts Industries Association (JAPIA), the Automotive Trade Journal Co., Inc. (ATJC) and investigations of the selected companies (JAPIA&ATJC, 2005). The time boundary for data collection was 2004 for both Mazda and Toyota. There were no firms who were involved in both networks on the basis of cross-share holding.

The cross-shareholding data was placed in a matrix, as shown in Table 1, where values in each cell indicates the percentage of cross shareholdings. For example, Master Trust Bank of Japan (row 40) invested in the stock of three firms: Pioneer Corporation (col.105 - 7.9%), Hitachi Ltd. (col. 108 - 6.7%), and the Furukawa Electric Co., Ltd<sup>73</sup> (col. 112 - 3.6%). Thus, the data matrix is asymmetric, as firms may invest in either one direction or have shares in each other.

Table 1 selected part of Cross Shareholdings network of Mazda in 2004

	105	106	107	108	109	110	111	112
31	0	0	0	3.1	0	0	0	0
32	0	0	0	0	0	0	0	0
33	0	0	0	0	0	0	0	0
34	0	0	0	0	0	0	0	0
35	0	0	0	0	0	0	0	0
36	0	0	0	2.4	0	0	0	0
37	2.3	0	0	0	0	0	0	0
38	0	0	0	0	0	0	0	0
39	0	0	0	0	0	0	0	0
40	7.9	0	0	6.7	0	0	0	3.9
41	9.1	0	0	6	0	0	0	4.9
42	2.3	0	0	0	0	0	0	0
43	0	0	0	0	0	0	0	0
44	0	0	0	0	0	0	0	0

In a second step firms were removed from analysis where cross-holding of shares did not create connections to the main firms in each network. In network analysis these firms are referred to as ‘singletons’ or ‘independent firms’ and inclusion of these firms prevents calculation of closeness indices. This criterion also follows the boundary decision that firms involved in network governance processes must be connected to each other by cross-shareholdings. As a result analysis proceeded with 98 firms in the Mazda network (ie 58 suppliers and 40 banks/financial institutions) and 122 firms in the Toyota network (75 suppliers and 47 banks/financial intermediaries). Table 2 provides an overview of the data, including the addition of Mazda and Toyota to their respective networks.

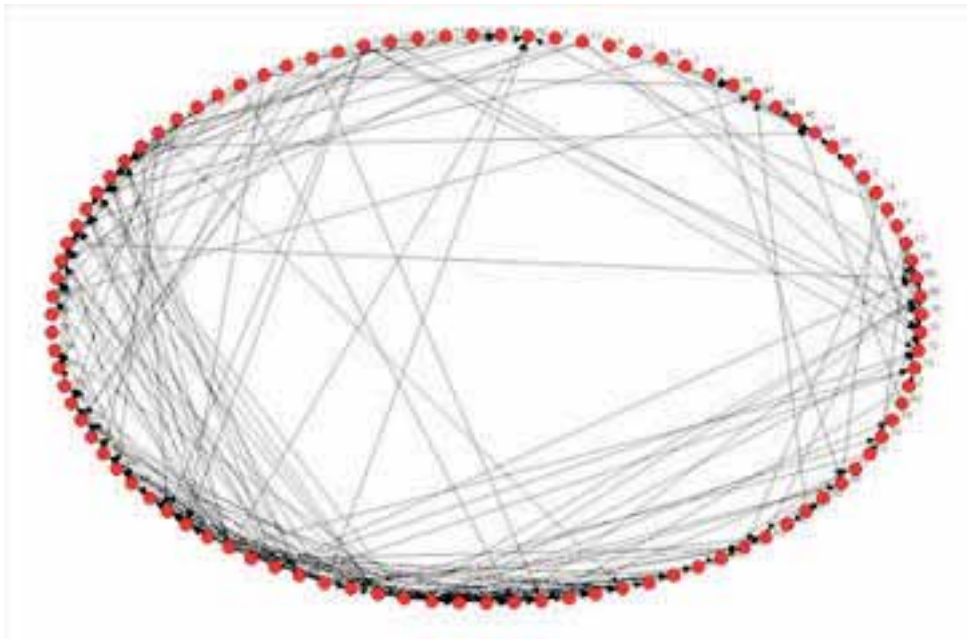
<sup>73</sup> The Furukawa Electric Co., Ltd. Changed its name to Furukawa Electric Co., Ltd. from August 1, 2009.

**Table 2 Detailed network of Cross Shareholdings in Mazda and Toyota in 2004**

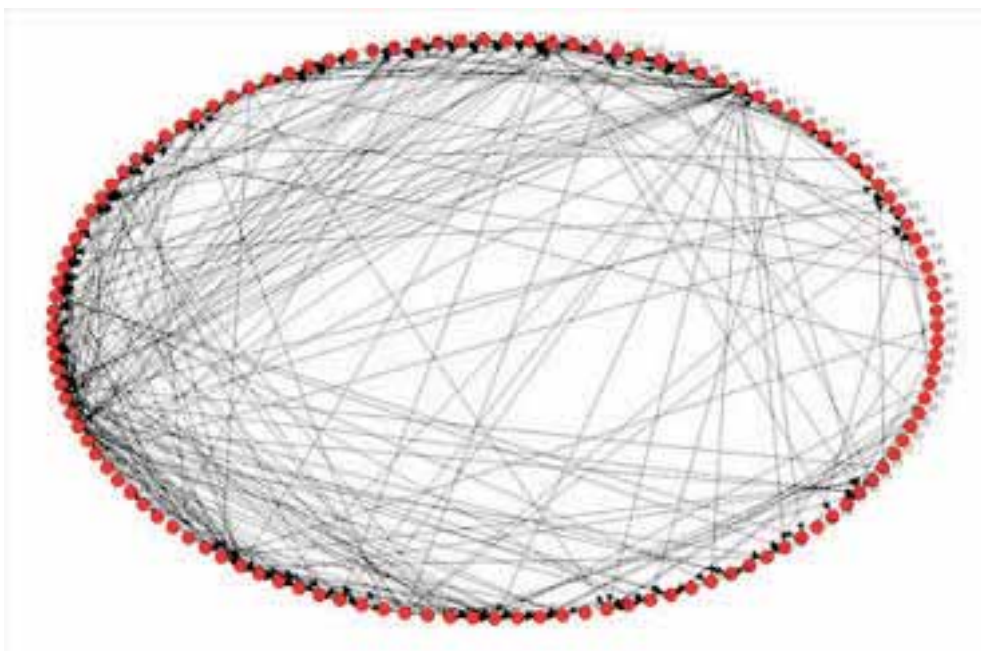
Network	Total Firms	Banks/ financial institutions	Suppliers	Singletons	Independent pairs	Car-maker
Mazda	223	40	58	118	6 firms	1
Toyota	255	47	75	130	2 firms	1

The networks of cross shareholdings for Mazda and Toyota are illustrated in figures 1 and 2 respectively. A visual comparison of the Mazda and Toyota cross-shareholdings shows that the Toyota network is more connected than the Mazda network. This gives a first indication that network governance effects are more highly displayed in the Toyota network.

**Fig. 1 Network of Cross Shareholdings of Mazda in 2004**



**Fig. 2 Network of Cross Shareholdings of Toyota in 2004**



*Construct Measurement*

Centrality is one of the key indexes in network structure analysis. Centrality is calculated from many different viewpoints; such as ‘closeness’, ‘degree’ and ‘information’ (Borgatti and Everett, 2006). The closeness measurement can be based on many different flows, such as money and gossip (Borgatti, 2005). Communication links are also valid for the calculation of closeness (cf Pathak, Mane, and Srivastava, 2006). Closeness, on the basis of cross-shareholdings, is applied in this paper. Cross-shareholdings are taken to indicate a flow of strategic level information and even more importantly influence flows within the network, including re-positioning of firms through changes in relationships via changing resource and activity connections between firms.

**ANALYSIS AND RESULTS**

Understanding the network structures of Mazda and Toyota individually is a first step towards comparing the two network structures. Thus, we undertake first an examination of absolute closeness to compare the nodes within a single network. In a second step we apply relative closeness so as to gain a further understanding of the difference between the two networks. In a third step, to gain a single measure of comparison between the two networks we apply a closeness centralization algorithm.

*1. Absolute closeness*

Absolute closeness is calculated as follows (Sabadussi, 1966):

$$C_C(p_k)^{-1} = \sum_{i=1}^n d(p_i, p_k); \quad k = 1, 2, \dots, n \dots\dots\dots (1)$$

where

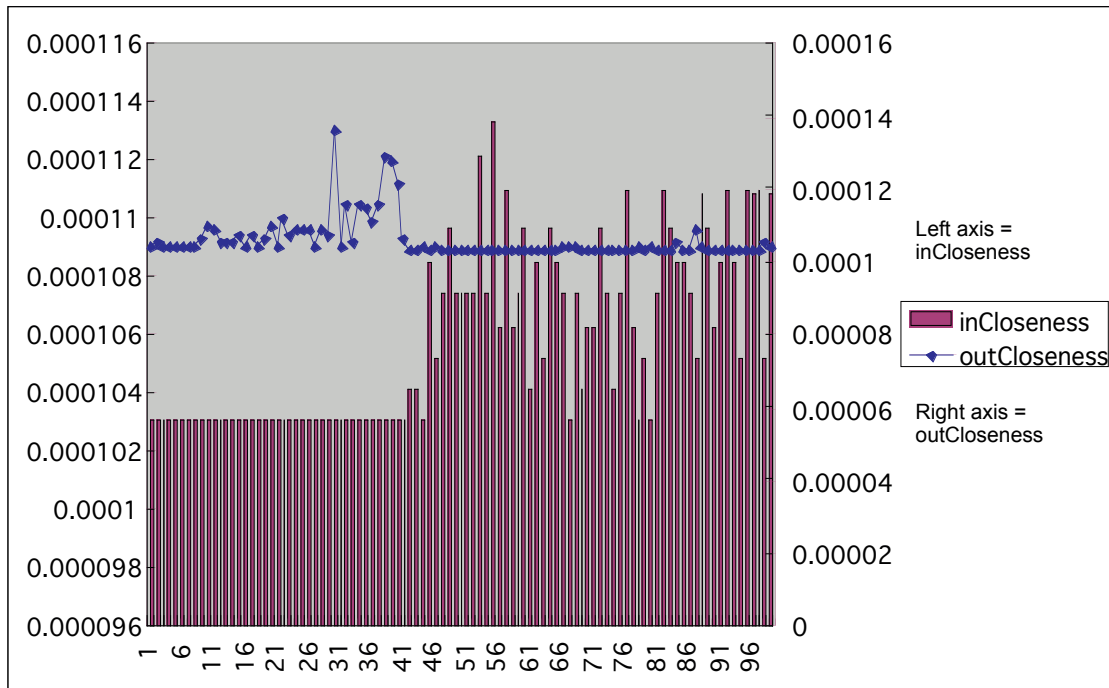
$d(p_i, p_k)$  .... the number of edges in the geodesic between  $p_i$  and  $p_k$ .

Because the network of cross shareholdings is asymmetric, closeness is calculated in two ways: in-closeness and out-closeness.

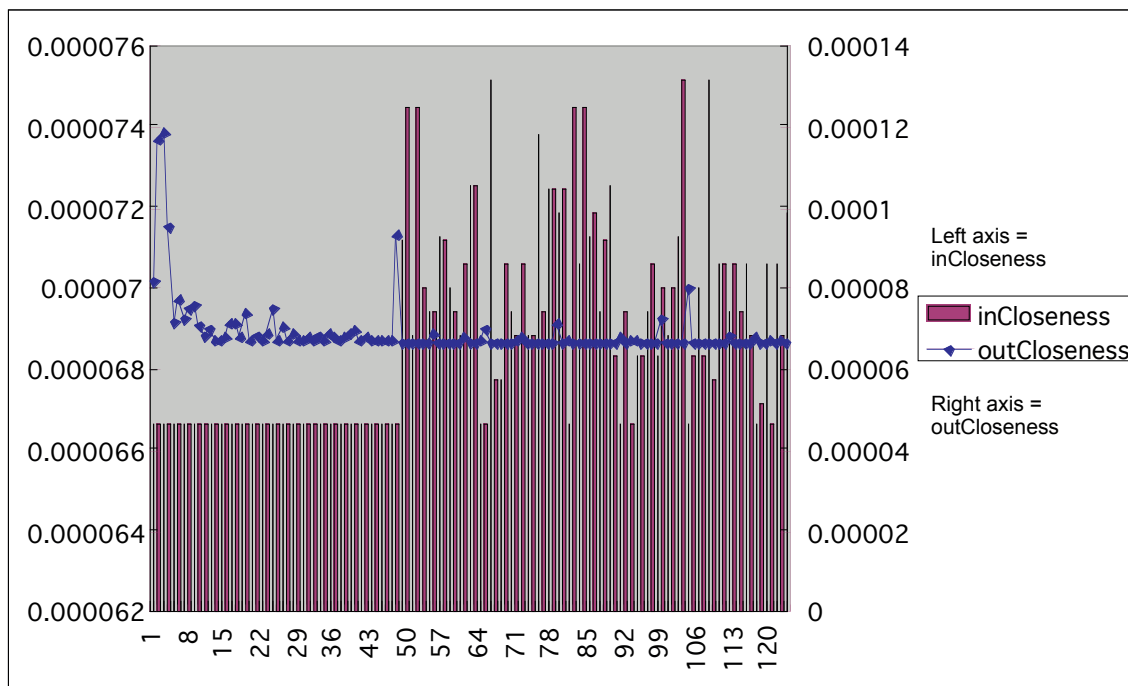
Figures 3 and 4 display the Mazda and Toyota networks of cross-shareholdings, respectively, on the basis of in-closeness and out-closeness. In figure 3 firms are shown on the horizontal axis, with firms 1 to 14 being banks/financial institutes, firm 41 is Mazda, and the remainder supplying firms. In figure 4, firms on the horizontal axis are banks and financial institutes (1 - 47), Toyota (48) and supplier firms (49 - 123).

A further examination of Figure 3 and Figure 4 shows variation of in-closeness and out-closeness according to whether the firm is a bank/financial institution or a supplier. For both Mazda and Toyota the in-Closeness of banks/financial institutions is stable, while in-Closeness for suppliers varies dramatically. The pattern for out-Closeness is, in general terms, the converse. That is, for both Mazda and Toyota the out-Closeness of banks/financial intermediaries displays variation, and for suppliers out-Closeness is generally stable. However, there is evident some variation in out-Closeness for suppliers in the Mazda and Toyota networks.

**Fig. 3 Closeness in the network of Cross Shareholdings of Mazda in 2004**



**Fig. 4 Closeness in the network of Cross Shareholdings of Toyota in 2004**



The meaning of these results is that banks/financial institutions hold cross-shareholdings in other firms, but other firms do not hold shares in the banks/financial intermediaries. Whereas supplier firm shares are held by banks/financial institutions and also other supplier firms. Here is evidence of an inner-partial boundary.

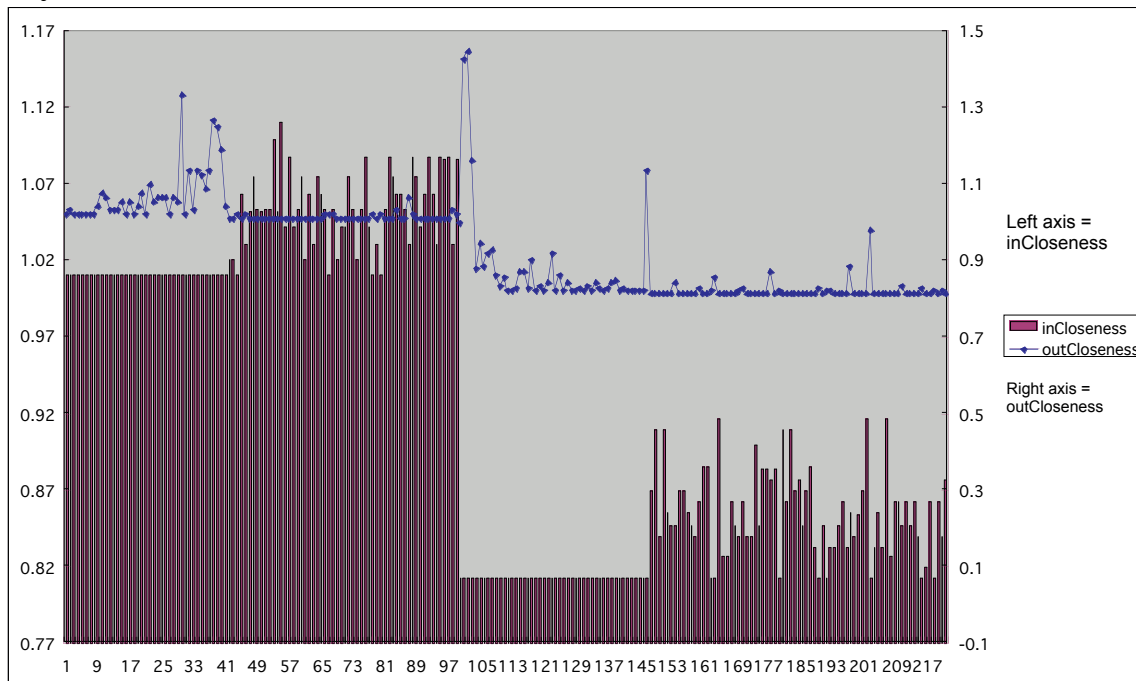
## 2. Relative Closeness

As we are concerned with the difference between the Mazda and Toyota networks we apply a measure of relative closeness. Relative closeness (Beauchamp, 1963) is calculated as follows:

$$C'_c(p_k) = \left[ \frac{\sum_{i=1}^n d(p_i, p_k)}{n-1} \right]^{-1} = \frac{n-1}{\sum_{i=1}^n d(p_i, p_k)} = \frac{n-1}{C_c(p_k)^{-1}} \dots\dots\dots (2)$$

Figure 5 displays relative closeness for the Mazda (firms 1 to 99) and the Toyota (firms 100 to 222) networks.

**Figure: 5 Relative closeness in the network of Cross Shareholdings of Mazda and Toyota**



An examination of Figure 5 confirms the results of our analysis of Figure 3 and Figure 4. Banks/financial institutions hold cross-shareholdings in other firms, but other firms do not hold shares in the banks/financial intermediaries. On the other hand, supplier firm shares are held by banks/financial institutions and also by other supplier firms. However, Figure 5 also shows that firms in the Mazda network have higher in-Closeness and out-Closeness than firms in the Toyota network. This indicates that the firms in the Mazda network have relatively more cross shareholdings. However, the relative closeness measure does not account for variation caused by network structure and boundary. The Mazda and Toyota networks are significantly different in size. Table 3 shows the different sales, operating income and market share of Mazda and Toyota.

**Table 3 Sales, Operating Income and Market Share of Mazda and Toyota**

	Sales (x 100 million)	Operating income (x 100 million)	Market share
Mazda	26,956	829	4.8%
Toyota	185,515	16,722	30.1%

3. Closeness centralization

Closeness centralization, also called ‘entire closeness’, is the variation in the closeness centrality of nodes, divided by the maximum variation in closeness centrality scores possible in a network of the same size (Freeman, 1977). This measure allows a comparison of different networks on a single scale.

Closeness centralization is calculated as follows:

$$C_c = \frac{2n - 3}{n^2 - 3n + 2} \sum_{i=1}^n (C'_c(p^*) - C'_c(p_i)) \dots\dots\dots (3)$$

where

$$C'_c(p^*) = \max C'_c(p_i)$$

The closeness centralization algorithm gave a result of 20.29 for Mazda and 33.03 for Toyota. This indicates, after accounting for the relative differences of each network, that the Toyota network has firms with a higher level of centrality than the Mazda network. This difference is a result of a pattern within the Toyota network, where Toyota and a few Toyota suppliers have very high values of out-Closeness. This pattern means that a central group of Toyota supply firms have share-holdings in other supplier firms. The implication of this pattern is that influence ties within the Toyota supplier inner-partial boundary are stronger than within the Mazda supplier inner-partial boundary.

***Analysis of Closeness and Profit***

Table 4 and 5 present a correlation analysis between in-closeness, out-closeness, ordinary profit and profit for Mazda and Toyota respectively. These tables allow comments on our hypothesis. There is a high positive correlation between in-closeness and out-closeness. But only a high correlation between out-closeness and profit. This result suggests that centrality of shareholdings in other firms is associated with firm performance and offers support for our hypothesis. The lack of a correlation between in-closeness and profit is intriguing, as in-closeness and out-closeness are correlated. The only explanation appears to be that the centrality of other firms shareholdings in a firm does not lead to information and influence flow; rather influence and information only flow in one direction from share owner to the firm. This is an interesting result, suggesting that partial ownership of supplier firms by central firms in a network leads to stronger relationship governance and so firm performance.

The interesting finding of the empirical study is that not only does centrality of firm-position in a network influence firm performance, but that the direction of share ownership is a key

factor in explaining relationship governance. Centrality and so information flow and power is not enough to secure firm performance, rather some form of partial ownership of less central firms, in this case suppliers, is a key element of successful firm performance.

**Table 4 Correlation ratio between closeness and profit of Mazda**

–	–	in-Closeness	out-Closeness	Ordinary Profit	Profit
In-Closeness	Pearson' correlation ratio	1			
	Significant probability	–			
	N	59			
Out-Closeness	Pearson' correlation ratio	.979**	1		
	Significant probability	0	–		
	N	59	59		
Ordinary Profit	Pearson' correlation ratio	-0.13	.839**	1	
	Significant probability	0.352	0	–	
	N	53	53	53	
Profit	Pearson' correlation ratio	-0.063	.468**	.688**	1
	Significant probability	0.655	0	0	–
	N	53	53	53	53

Notes: \*\* the correlation ratio is significant (two sided) at 1%. N is the number of firms

**Table 5 Correlation ratio between closeness and profit of Toyota**

–	–	in-Closeness	out-Closeness	Ordinary Profit	Profit
in-Closeness	Pearson' correlation ratio	1			
	Significant probability	–			
	N	76			
Out-Closeness	Pearson' correlation ratio	.923**	1		
	Significant probability	0	–		
	N	76	76		
Ordinary Profit	Pearson' correlation ratio	-0.003	.795**	1	
	Significant probability	0.982	0	–	
	N	66	66	66	
Profit	Pearson' correlation ratio	0.055	.466**	.696**	1
	Significant probability	0.669	0	0	–
	N	62	62	62	62

Notes: \*\* the correlation ratio is significant (two sided) at 1%. N is the number of firms



## **Limitations and future Research**

We begin this section by considering methodological limitations and then move onto theoretical research directions. There are a number of methodological limitations to the empirical study in this chapter. First, the choice of boundary was on a limited version of cross-shareholdings. While shareholding appear to be an appropriate way to consider influence and resource disposition to influence firm-network position, the specific role of owning shares in other firms (ie out-closeness) suggests that a boundary based on share ownership and in particular the ratio of ownership, or weighting of influence, would be an interesting area for future study.

A second limitation is that the data applied in this paper is cross-sectional, that is for only one fiscal year. The time boundary chosen has an influence on the result when the phenomena being studies is a dynamic one as is the case with a network. Future studies might apply a time series approach.

Finally on methodological limitations, although in-closeness and out-closeness are effective indices to show the distance of stock-holding from a firm to other firms and so the structure of network, other closeness indices should also be calculated. Future studies could calculate the centrality indices of degree and betweenness, as well as density, balance and effective size.

With regard to future research based on the theoretical discussions in this chapter, the positive association between out-Closeness and firm profit suggests that it is worthwhile to proceed with the task of studying the theoretical model proposed earlier where network governance and network capability are mediator variables to the association between firm-network position and firm performance. This study will require development of the theoretical dimensions of network governance and their indicators. The capability dimensions of network governance are across two analytical levels; the firm and the network. The firm has a capability to influence network position by application of information and resource connections. The capability is used to achieve more effective connections between the firms in a network and efficient connection between each firm's resources and specialist activities.

These proposed constructs, as well as those of firm-network position and network performance, are all relative in nature. This presents interesting issues for measurement, as relative measures must be determined that would allow comparison across different networks.

## **Conclusion**

We reviewed the literature of network structure and network governance, and differentiated network governance from network capability. The relative nature of network structure was explored through discussion of network boundaries and firm interdependencies.

We proposed a new definition for network governance based on a firm capability, but a network goal; with the driving force being eventually firm performance as derived from the network and the business relationships that make up a network.

The discussions of network governance and structure lead us to propose a theoretical model with network governance and network capability as moderating variables between firm-network position and firm performance. As a first step towards examining this model empirically we measured in-Closeness and out-Closeness for the keiretsu networks of Mazda

and Toyota on the basis of cross-shareholdings. In order to compare the different network structures of Mazda and Toyota we calculated the relative index of closeness. Toyota was found to represent a tighter network structure, with entire closeness higher for the Toyota network than the Mazda network, mainly because of a higher level of our-closeness by central firms within that network.

Finally we examined the hypothesis that firm-network position was associated with firm performance. The method used was a correlation between in-Closeness/out-Closeness and firm profit. An association was found for out-Closeness, but not for in-Closeness on the basis of correlation analysis. These results suggest that partial ownership of other firms in the network is an important determinant of firm performance and that further research on the mediating affects of network governance and network capability is required.

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***Session 4: GLOBAL AND GLOCAL***

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# ***THE EFFECTS OF GOVERNANCE ON THE PERCEPTIONS OF PARTNER BRANDS***

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## **ABSTRACT**

In literature, analyses about governance emphasize the firms' and shareholders' interests. Rarely, the opinions of consumers are considered. Yet, what they think about the consequences of governance is fundamental as a sudden strategic change could confuse their image of the firms. This study aims firstly to propose a way to consider the consumers' point of view and secondly to present a variable which could moderate the negative consequences of governance for them. To attain this purpose, an experiment testing the consumers' image of brands was conducted in two steps: before and after they are suddenly aware of a strategic change i.e. the decision of two firms to make a partnership. Then, the influence of one variable, the affective component on the change of consumers' image and behaviour is analysed. The results provide concrete evidence that an important affective component for at least one partner brand moderates the negative consequences of governance and leads to better perceptions of the two partner brands.

**KEYWORDS:** Governance, partnership, consumer perceptions, affective component.

## **INTRODUCTION**

Nowadays, to face up to recession and global competition, most firms make alliances. This strategic decision commits the firms for a long time, so it is important for them to take into account the positions of all the actors, especially the shareholders, the managers and the customers, to make a successful decision. In specialised literature, many studies deal with this phenomenon, often from the point of view of firms and shareholders (Aurifeille, Medlin 2001, 2004; Kalaignanam, Venkatesh, Varadarajan 2007, Nielsen 2007). However, less attention has been given to the consumers' perspective (Goh, Uncles 2003). Yet, what consumers think and feel about governance is fundamental because the last decision is theirs: to buy or not to buy the products.

In this article, we analyse the consumers' perceptions concerning a strategic decision: a partnership between two firms. We emphasize the consumers' perceptions or their image of the brand because, for them, it is the representation of the firms' offer (Dobni, Zinkhan 1990; Keller 1993); it represents every physical and symbolic characteristic of the product. So, it is important for firms to construct a strong image to avoid the possible negative consequences due to the governance. To do so, firms must know which factors could moderate the change in the consumers' image.

According to authors Yeung and Wyer (2005), the emotional factor determines the choice of a product and it is a basis in assessing the brands (Pham, Cohen, Pracejus, Hughes 2001).

Nevertheless, could this variable moderate change in the consumers' perceptions when they face up to the strategic evolution? And consequently, could this variable influence the intention to purchase the brands?

To answer these questions, we divide this paper into two parts: the first part outlines the importance of the consumers' image of the governance. The emotional factor is emphasized as it is likely to moderate the change in consumers' image. The second part presents an empirical illustration of Renault and Nissan, firms which operated an important change in their governance as they set up a partnership. The article ends with a discussion on the findings and their implications for marketing practises.

## **1. CONSUMER PERCEPTIONS OF GOVERNANCE: THE CASE OF A PARTNERSHIP**

### **1.1. GOVERNANCE AND CONSUMER PERCEPTIONS**

Nowadays, with globalisation, firms have to make strategic decisions to be competitive. This way, opening up new firms and markets becomes necessary. Various external strategies exist such as mergers, acquisitions, joint-ventures, external growth etc. Among them, one major strategy has developed considerably for decades: the strategic alliances (Goh, Uncles 2003). This strategy consists of an agreement among firms to work together to attain some strategic objectives (Harrigan 1986) also, it engages firms for a long term. So, it is very important to consider all the actors for governance of these firms.

Generally, firms point out the shareholders' and managers' positions (Shamdasani, Sheth 1994; Bonnera, Kim, Cavusgil, 2005; Nielsen 2007) because they have most of the information concerning the firm, which allows them to have a long term perspective for the strategic development of the firm. They also have decision making power to win acceptance for their interests. On the contrary, the consumers' positions are situated on another level as they don't participate directly to the governance. The governance of firms like the process of forming a strategic alliance is composed of three key stages: creation, implementation and assessment. (Buono 1997; Das, Teng, 1999). The first two stages, upstream of the process, concern above all the shareholders and the managers whereas the assessment, downstream of the process, can be carried out by the three actors and especially the consumers.

In marketing, it is irrelevant to ask consumers what they think about governance as the answers to the question can't be used in the management and practical commerce. Actually, it is possible to have a difference between what the consumers think or say and their reactions when buying. For example, consumers think that the sale of Opel by General Motors is a good strategy as it would preserve more jobs; however, they would not buy an Opel car because the equipments could change. Yet, in marketing, to use some adequate strategies, it is important to find congruence between what consumers think about the products and their buying decisions. Consequently, to consider the positions of consumers, it is more relevant to emphasize on their perceptions and assessment of the consequences of governance as well as the effects of the latter on their behaviour. In other words, the questions concern the firms' image and the consumers' intention of buying the products after a strategic change.

The firms' image and more precisely the image of the firm's brands is what people think and feel about it (Bullmore 1984). It is seen as the representation of a brand in the consumer's mind that is linked to an offering (Dobni, Zinkhan 1990). So, it integrates some affective and

cognitive components, which a consumer or a group of persons associate with a brand (Kapferer, Thoenig 1989). In short, for consumers, brand image is the representation of firm. This explains why companies spent a vast sum of money on the development and measurement of their corporate/brand image (Romaniuk, Sharp 2003). They know that a strong image provides benefits to the consumers and firms:

- Firms: it permits to differentiate the brand from competitive offerings as it provides a visible representation of difference between products (Nandan 2005). It enhances brand reputation which is one important attribute in the consumers' decision making (Joon-Wuk Kwun, Oh 2005). Also, it increases the sales and, as author Suharanto (2003) asserts, it is positively correlated to the customer's intention to recommend and repurchase the product/service.
- Consumers: a strong image has a positive impact on the perceived quality of the product (Cretu, Brodie 2005). It also induces a high level of consumer acceptance which reduces the perceived risk when they have to buy the products. So, consumers trust and remember the brand which simplifies the process of decision making.

To sum up, a strong brand is beneficial to firms and consumers. The problem is its stability when firms operate strategic decisions such as a partnership. These strategic changes could produce variations in the consumers' image of firms in particular if other partners with their own brands intervene. In this case, consumers must imagine a common product manufactured by two different firms, which could make the image of the firm confusing, especially if no product really exists. For this reason it is important to emphasize the factors likely to moderate the negative consequences of change on the consumers' image. In the next section we analyse one factor: the emotional/affective variable.

### 1.1.INFLUENCE OF THE AFFECTIVE VARIABLE IN CONSUMERS' PERCEPTIONS OF GOVERNANCE

As a large body of theorising and research in marketing documents, affect is often emphasized in order to understand the consumers' behaviour. Among the three components of attitude: cognitive (think), affective (feel) and conative (buy), we think it is the most important because it is a global concept which includes the cognitive component and influences the intention of buying.

The cognitive and affective components are closely linked. For example, when we ask consumers "how they feel about a product" their responses are undoubtedly a mix of cognitive and affective reactions because when verbally asked for their affective reactions, respondents must think about them (Derbaix 1995). Authors Forgas and George (2001) develop this idea. For them, affect can influence judgments, decisions and behaviours in organizations because it influences both what people think (the content of cognition) and how people think (the process of cognition). Regarding the connections between affect and conative components, it seems obvious that when consumers like a product they are willing to buy it.

In marketing, affect is used to explain other facets of consumer behaviour. In his study, Martin (2003) demonstrated that individuals' positive or negative affective states determine their message-processing strategies and thus alter the way they respond to advertising messages. It is also likely that consumers use affect as information input for assessment of brand (Pham 1998). So, when consumers are in positive affective states, they will probably be

confident and perceive that there are no threats in the environment. In contrast, when individuals are in negative affective states they perceive that the environment is threatening (Chang 2005). Consequently, when firms operate strategic decisions with a new environment and new partners, it is very important to look into consumers' affect for each firm in order to know the consequences of these changes in their brand/product image. A positive affective state would moderate the negative consequences in the consumers' images. From this point of view, we can formulate the following hypothesis:

**H1: When affect is important, the change induced by governance has no influence on the brands' image.**

This hypothesis is put forward when the affect is important for the two brand partners. One important question is raised when consumers have to face with different level of affect concerning each firm or brand. In this situation, several cases happen as shown in the table below:

Entreprise A		Entreprise B			
		Negative affect Affect < 4		Positive affect Affect ≥ 4	
	Negative affect Affect < 4	Image firm A <u>Unstable</u>	Image firm B <u>Unstable</u>	Image firm A <u>Unstable</u>	Image firm B Stable
Positive affect Affect ≥ 4	Image firm A Stable	Image firm B <u>Unstable</u>	Image firm A Stable	Image firm B Stable	

The table describes two major types of situations concerning brand image: When both brands are appreciated by consumers<sup>74</sup>, we consider that the brand image is stable because consumers do not attach importance to the possible negative consequences due to governance.

On the contrary, when at least one of the two brands is unappreciated by consumers, the image of both brands is likely to be unstable. The brand alliance which represents a unity where one brand is presented in the context of the other and vice versa (Simonin, Ruth 1998), may confuse the images consumers have about partner firms.

However, in the case where consumers prefer one brand compared to its partner, the change of perceptions could be positive. Consumers may base their brand perceptions on their subjective affective reactions to the most familiar brand without considering the change that the alliance might entail. Actually, consumers who feel good about a core brand may assess its extension favourably, even if the extension is highly dissimilar to the core (Yeung and Wyers 2005).

This phenomenon is similar to the “halo affect” which is the influence of affect on the consumers' perceptions (Aurifeille 1991). It occurs when affect or preference for an object distorts the judgment of its attributes in such a way as to make the judgments more consistent with preference (Huber 1978). So, when consumers are in a happy mood, they are more likely to rely on heuristic cues and to pay less attention to detail (Bless, Bohner, Schwarz, Strack 1990). In the case of a brand alliance, the change occurs could be overlook in favour of some positive attributes of one brand. So we can posit the following hypothesis:

<sup>74</sup> We measured the affect on a semantic differential scale with seven points. A score < 4 means that the brand is not liked whereas a score ≥ 4 means that the brand is liked.



**H2: When brand A is more appreciated than brand B, the image of brand A is stable whereas that of brand B changes positively.**

If this hypothesis is validated, the consequences could be beneficial for the sales of the two firms in alliance. In literature the link between the affective and the conative attitude has been shown (Morris, Woo, Geason, Kim 2002). When a consumer feels positive about a brand he/she is likely to buy this brand. In the case of a brand alliance as a consequence of what happens to the image, we consider that the intention of buying the product varies according to the degree of affect. So the third hypothesis is the following:

**H3: When brand A is more appreciated than brand B, the intention of buying brand A is stable whereas that of brand B changes positively.**

The validation of the three hypotheses could emphasize the role of affect in consumer behaviour. For marketers the consequences are important as they can use this variable to bring marketing strategies into play. In the last section we describe these managerial consequences and also we analyse the theoretical contributions of this variable in marketing.

### 1.3. THEORETICAL AND MANAGERIAL INTERESTS

In this article we consider that a positive affective state for at least one brand in the alliance would improve the image of the two firms. If this hypothesis is validated, the results could be used by marketers. They will know that it is adequate to propose common advertisement, which could reduce the communication costs. Also, they could emphasize the advantages all the partners gain, so that consumers accept the change induced by governance.

Some results validating the important role of affect could be used to help consumers in the last step of their decision making process and maybe favour impulse buy. Indeed this sort of purchase happens when consumers feel an uncontrollable need to buy a product immediately (Rook 1987). So it corresponds to the situation where an individual in positive affective states pays less attention to details and lets emotional states prevail. In the car sector the impulse buy becomes important, because nowadays firms attempt to develop their brands and products on a global scale, by operating as if the entire world were a single entity (Levitt 1983). The supply of cars becomes large with a vast choice of products becoming identical. So, for consumers, it is more and more difficult to make a choice. For this reason, it is important to reassure them by promoting the product they like. For example, by highlighting the aspects of a product important for them, like design or options so that they are really taken with it.

In this study, the methodological procedure used allows to have some reliable information for marketing strategies. The affective component of consumers' attitude was analysed before they are aware of the partnership. So it constitutes a neutral variable which could be emphasized by marketers. This is why, in the analysis we consider data concerning the respondents who are not aware of the partnership. They are invited to give their perceptions in two steps: first, before the documentary which introduces the alliance between two brands and then when they are aware of the partnership. Before the documentary, their feeling is specific to each firm without the influence of the alliance. So, the power of affective component in the change of firms' image could be proved without methodological bias.

In the next section we present some empirical tests, to validate our hypothesis and justify the interest in the subject.

## **2. EMPIRICAL STUDY**

### **2.1. EXPERIMENTAL FRAMEWORK**

The study concerns the choice of a car. We selected this product for several reasons:

- In order to stay competitive on the global market, all the firms in the car sector make alliances, either sporadic or permanent alliances. This strategy has known unprecedented growth worldwide in the past few years, since it is hard for firms to remain self-sufficient in a turbulent and changing environment (Crossnan, Inkpen 1995). These alliances have a direct influence on the supply and probably the demand because the products change. So, an analysis about alliances in the car sector is an adequate object for this study which aims to measure the effect of governance on the consumers' perceptions of the firm and their intention to buy its products.
- The car industry generates a lot of money. Global production has increased by 40% since the nineties, with 69.3 million cars manufactured (SESSI 2008). In Europe, this industry represents 3% of the gross domestic product. (Meot 2005). Despite the economic crisis of 2008, the car production remains high at 70 million car manufactured worldwide (Freysenet 2009). Moreover, it is a product which has become commonplace, the prices tend to be affordable for many people in developed countries and also in developing countries. For example, the Indian firm, Tata, launched a new low-cost car on the market so that the middle classes could buy it.
- Another reason justifying the choice of cars is that generally the consumers have different motivations to buy a car. For example, the cost, particularly in this period of economic crisis; for some utilitarian aspects like the number of doors and also the symbolic aspect like pleasing the family etc. So, the car is an adequate product to measure the multidimensional aspect of the consumer's image of firms.

The empirical part of this study concerns one alliance between French brand Renault and Japanese brand Nissan. We chose these two brands as the sample of respondents lives in France and it is important for our study that respondents know the brands. Renault is the first national brand whereas Nissan has been present in Europe since 1962. Yet, this group has a good reputation as they are among the first car groups all over the world.

An experiment about this alliance was carried out with 150 respondents. The methodological procedure consisted in several steps in order to better assess the evolution of the consumers' perceptions. So, in the first step, to test the respondents' global knowledge about the partnerships in the car sector, we proposed six couples of car brands and we asked them to note what couples of cars they thought were partners and how sure they were about it. It was measured on a seven-point scale from "not at all sure" to "very sure". Then, the respondents gave their perceptions concerning two brands: Renault and Nissan, our target firms. In a second step a documentary was shown to present the partnership between the two brands. A product from the alliance was presented. This film allowed all the respondents to be aware of the partnership. Then, we asked them to give again their perceptions about the characteristics proposed in the first step. This procedure enabled us to measure the consumers' perceptions before and after they became aware of the partnership.



that is to say these items measure the same thing. The other **results obtained with Lisrel 8 are also acceptable as the chi-square statistic is nonsignificant ( $\chi^2(24) = 20.03, p = 0.69$ ), and the goodness of fit index, the adjusted goodness of fit and the comparative-fit index are equal to 1, indicating perfect fit. Further, the indicators of residuals, the root mean square error of approximation and the root mean square is low at 0.027 showing that the residuals are weak.**

Three dimensions are extracted from the exploratory and confirmatory analyses: the sensory, symbolic and utilitarian dimensions composed of nine items<sup>76</sup>. These results tend to be identical to those proposed by author Hsieh. However, we note two differences: firstly the item “Fun to drive” suppressed in the “sensory” dimension and secondly, the economic dimension which is not significant. Maybe this dimension concerns above all the cost of the car and not the maintenance costs such as proposed by the author.

In the next section the results based on the modified scale of image are used to test the hypotheses.

## 2.2. THE RESULTS

In this section, the results for each hypothesis are presented successively.

### ■ Hypothesis 1

This hypothesis makes it possible to check if the importance of affect could reduce the negative consequences on brand image when firms operate a strategic change that is to say when they make a partnership. To test the hypothesis we consider two situations:

- When the affective component of respondents is high for the two brands i.e. when the score of affect is superior or equal to 4 on a seven-point bipolar semantic differential scale,
- When the affective component of respondents is low for the two brands i.e. when the score of affect is inferior to 4 on a seven-point bipolar semantic differential scale.

The results are presented in tables 2 and 3 below:

Table 2: Tests and averages– Respondents who like the two brands (**Affect  $\geq 4$** )

Dimensions	Renault (93 respondents)	Nissan ( 84 respondents)
Sensory	<b>p = 0.359</b> t = 0.923 ddl : 92 Average: [5.1505 – 5.0538]	<b>p= 0.206</b> t= 1.275 ddl : 83 Average: [5.1905 – 5.0714]
	<b>⇒ Stable image</b>	<b>⇒ Stable image</b>
Symbolic	<b>p= 0.369</b> t= -0.904 ddl : 92 Average: [4.8925 – 4.9892]	<b>p= 0.006</b> t= -2.822 ddl : 83 Average: [4.6548 – 4.9524]
	<b>⇒ Stable image</b>	<b>⇒ Unstable image</b>

<sup>76</sup> The detail for these items are presented in appendix 2

<b>Utilitarian</b>	<b>p= 0.625</b>	<b>p= 0.128</b>
	t = - 0.490 ddl: 92 Average: [5.4731 – 5.4301]	t = 1.536 ddl : 83 Average Mean: [5.4643 – 5.3214]
	<b>⇒ Stable image</b>	<b>⇒ Stable image</b>

The table presented above concerns the respondents who like the brands. In this case their image of the two brands is stable since the Student's t-test for the three dimensions is non significant. This means that there is no difference between the consumers' perception of the brands, before and after they became aware of the partnership. One exception exists for the Nissan brand concerning the symbolic dimension. The probability ( $p < 0.05$ ), meaning that t-test is significant. So, the consumers' perception of the brand changes between the two steps. However, the gap between perceptions before and after the partnership is about 0.2976, showing that the perceptions of this dimension improve.

All in all, the results confirm the idea that the consumers' brand image is stable when they like the brands. Also, the change induces by governance has no negative consequences on their perceptions.

In the table 3 below, the contrary case is tested: when respondents don't like the brands

Table 3: Tests and averages– Respondents who don't like either brand (Affect <4).

Dimensions	Renault (32 respondents)	Nissan ( 41 respondents)
<b>Sensory</b>	<b>p = 0.018</b>	<b>p = 0.015</b>
	t = - 2.490 ddl : 31 Average: [3.8438 – 4.3438]	t = - 2.538 ddl : 40 Average: [3.5610 – 4.1220]
	<b>⇒ Unstable image</b>	<b>⇒ Unstable image</b>
<b>Symbolic</b>	<b>p= 0.09</b>	<b>p= 0.002</b>
	t= -2.792 ddl : 31 Average: [3.8438 – 4.3125]	t= -3.302 ddl : 40 Average: [3.0732 – 3.7317]
	<b>⇒ Unstable image</b>	<b>⇒ Unstable image</b>
<b>Utilitarian</b>	<b>p= 0.002</b>	<b>p= 0.000</b>
	t = - 3.474 ddl: 31 Average: [3.3438– 4.0625]	t = - 6.031 ddl : 40 Average: [2.9512 – 4.1220]
	<b>⇒ Unstable image</b>	<b>⇒ Unstable image</b>

In this case, when the affective component is inferior to 4 on the scale, the results concerning the three dimensions for the two brands are significant ( $p < 0.05$ ). There are significant differences between the consumers' perceptions before and after awareness of the partnership. In the case of Nissan, the gap between perceptions is particularly important for two dimensions: symbolic and utilitarian. It is respectively equal to 0.6585 and 1.1708. Even if the change occurs for the two brands, it is important to emphasize the change for Nissan, which is more important than for Renault. For the latter, the most important change concerns the utilitarian dimension with a gap equal to 0.7187.

To sum up, when consumers have a low affective component, their image of both brands is unstable and depends on external variables as is the case here with, the governance of the firm.

The results above show that the change induced by governance has an impact on the consumers' perception of both brands when their affect is low, whereas there is no consequence when their affect is high as the brand image is stable. So, we can conclude that hypothesis 1 cannot be rejected:

H1: When affect is important, the change induced by governance has no influence on the image of both brands.

In the following hypothesis, these results will be completed by comparing the change in brand image according to the importance of affect.

■ *Hypothesis 2*

This hypothesis aims at comparing the evolution in the perception of both brands when the degree of affect is different for each brand, that is to say, when a brand is more appreciated than the other. Several situations occur:

- Renault is more appreciated than Nissan,
- Nissan is more appreciated than Renault,
- Both brands are similarly appreciated.

The results for these situations are presented in the two tables below. In table 4, the first case, “Renault more appreciated than Nissan” is presented:

Table 4: Tests and averages– Case 1: Renault is more appreciated than Nissan (56 respondents)

Dimensions	Renault	Nissan
Sensory	<p><b>p= 0.280</b></p> <p>t= 1.090 ddl : 55 Average: [5.2182 – 5.0909]</p>	<p><b>p= 0.247</b></p> <p>t= -1.169 ddl : 55 Average: [4.0909 – 4.2909]</p>
	<b>⇒ Stable image</b>	<b>⇒ Stable image</b>
Symbolic	<p><b>p=0.558</b></p> <p>t= -0.590 ddl : 55 Average: [4.8 – 4.9091]</p>	<p><b>p= 0.004</b></p> <p>t= -2.997 ddl : 55 Average: [3.6786 – 4.1429]</p>
	<b>⇒ Stable image</b>	<b>⇒ Unstable image</b>
Utilitarian	<p><b>p= 0.367</b></p> <p>t = 0.910 ddl: 55 Average: [5.5091 – 5.3818]</p>	<p><b>p= 0.001</b></p> <p>t = - 3.416 ddl : 55 Average : [3.7321 – 4.3571]</p>
	<b>⇒ Stable image</b>	<b>⇒ Unstable image</b>

In this case, the image of the more appreciated brand, that is to say Renault, is stable, the Student's t-test for each dimension is not significant since ( $p > 0.05$ ). On contrary, the image of the less appreciated brand improves. The change in two dimensions, symbolic and utilitarian, is important. The gaps are respectively 0.4643 and 0.625 showing a favourable evolution. There is one exception for the sensory dimension, meaning that the partnership with Renault does not influence the respondents' perception concerning this dimension.

The following table presents the second case, when Nissan is more appreciated than Renault:

Table 5: Tests and averages– Case 2: Nissan is more appreciated than Renault (35 respondents)

Dimensions	Renault	Nissan
Sensory	p= 0.017 t= - 2.503 ddl : 34 Average: [4.1714 – 4.5714]	p= 0.68 t= - 0.403 ddl : 34 Average: [5.3714 – 5.4286]
	⇒ Unstable image	⇒ Stable image
Symbolic	p=0.032 t= -2.234 ddl : 34 Average: [4.5143 – 4.8286]	p= 0.147 t= -1.484 ddl : 34 Average: [4.8857 – 5.085]
	⇒ Unstable image	⇒ Stable image
Utilitarian	p= 0.006 t = - 2.944 ddl: 34 Average: [4.1143 – 4.5714]	p= 0.109 t = 1.645 ddl : 34 Average Mean: [6 – 5.8]
	⇒ Unstable image	⇒ Stable image

In this situation, without exception, the image of the more appreciated brand, Nissan, is stable in the three dimensions, whereas the image of Renault is unstable and changes positively. The gaps between the perceptions before and after awareness of the partnership are 0.4 for the sensory dimension, 0.3143 for the symbolic dimension and 0.4571 for the utilitarian dimension. We note that the evolution for Renault compared to that of Nissan in case 1 is less important.

To test this hypothesis we also analyse the case when both brands are appreciated in the same way. The results show a stability of the image of both brands for all dimensions. There is no influence of a brand on the other.

These findings for each case confirm that hypothesis 2 cannot be rejected:

H2: When brand A is more appreciated than brand B, the image of brand A is stable whereas that of brand B changes positively.

In the last hypothesis, the consequence of governance on the respondents' action i.e. the intention to purchase the products of the brands is tested. This hypothesis will permit to know if the intention to purchase the brands changes positively when consumers are faced with a change in firms' strategy and, also, what the influence of affect in the process is.

### ■ Hypothesis 3

To validate this hypothesis, the same procedure as previously has been chosen. T-test measuring the difference in average is used. The two cases are presented: first when Renault is more appreciated than Nissan and second the reverse situation when Nissan is more appreciated than Renault. Table 6 recapitulates the data.

Intention to buy	Renault	Nissan
<b>Renault &gt; Nissan</b>	<b>p= 0.721</b> t= - 0.359 ddl : 55 Average: [3.9643 – 4.0536]	<b>p= 0.019</b> t= - 0.403 ddl : 55 Average: [2.3929 – 2.8036]
	⇒ <b>Stability of intention to buy</b>	⇒ <b>Instability of intention to buy</b>
<b>Nissan &gt; Renault</b>	<b>p=0.050</b> t= - 2.031 ddl : 34 Average: [2.9429 – 3.6571]	<b>p= 1</b> t= 0 ddl : 34 Average: [4.7429 – 4.7429]
	⇒ <b>Instability of Intention to buy</b>	⇒ <b>Stability of Intention to buy</b>

We notice the same trend as in the results concerning brand perception. When the affective component is favourable to one brand (affect  $\geq 4$ ), the intention to buy products of this brand is stable, whereas when the affective component is lower (affect  $< 4$ ), the purchase intention is unstable. It evolves positively for the less appreciated brand, which confirms the influence of a brand on its partner. The change in the intention to buy is more important for Renault, with a difference in the average equal to: 0.7142, than for Nissan with a difference of 0.4107. Consequently, these results permit to conclude that hypothesis 3 cannot be rejected:

H3: When brand A is more appreciated than brand B, the intention to buy brand A is stable whereas that of brand B changes positively.

The affective component has an influence on the change of image and also on the intention to buy the product. In the case of a partnership, particularly here, concerning Renault and Nissan, the change is relatively different. We discuss these results in the next section.

### 2.3. INTERPRETATION OF RESULTS

In this section we discuss two different aspects: the important role of affect and the different changes that occur for both brands when consumers are faced with a strategic change.

Results from hypothesis 1 emphasize the important role of affect in the respondents' behaviour. When they like the brands, the image they have of them is stable. This result confirms the previous studies in marketing which have demonstrated that attitude is a relatively stable psychological construct (Fishbein, Ajzen 1975) and because of this stability it is expected to influence the assessment of partner brands directly (Simonin, Ruth 1998).

So, when attitude and more exactly the affective component is low, the assessment of the brands is directly influenced. It is unstable because both brand images become confused. Consumers do not succeed in distinguishing the brands, and their judgements of a product are influenced by what authors Lynch, Chakravarti and Mitra (1991) call the "context effects" since the partner is ubiquitous. So, to give their perception about the partner brands they try to imagine a product manufactured by both firms, which is difficult, especially as they didn't know about the existence of a partnership before the experiment. In our case, the brand image for all dimensions was unstable, showing a disruption in the consumers' memory due to governance effects.



However, it is important to notice that the change was positive. That is to say, once respondents are aware of the partnership, the images of both brands improve. Several reasons could explain this specific phenomenon:

- Renault and Nissan are complementary brands: Renault positions its car mainly between the bottom and middle-of-the range whereas the cars of Nissan's cars are positioned top-of-the range, for example with its series of 4WD.
- We note that the changes for Nissan are more significant certainly because the sample of respondents live in France and have more experience with the national brand Renault. So, they use it as a cue to form their assessment of the Nissan brand. There is a levelling up; the assessments of both brands tend to be identical. However, this positive situation occurs in the case of a national brand. What would the consequences be in other situations, for example in the case of two foreign brands? There might be a levelling down. Therefore, it is important that consumers should have a high affective component to stabilise their image.

The results from hypothesis 2 confirm this effect of levelling depends on the degree of affect. When a brand is more appreciated than its partner, there is a "halo effect" which benefits the less appreciated brand.

In the case of Renault and Nissan the levelling up is different for each of the three dimensions:

- Nissan has the benefit of the symbolic and utilitarian dimensions. The symbolic dimension because Renault is the first car manufacturer in France and it is a well known firm. So, as authors Fang and Mishra (2002) have shown, the brand with the lesser notoriety may gain considerable credibility once an established brand "endorses" it by forming an alliance. The benefit from the utilitarian dimension can be explained by the possibility to widen one's product range.
- Renault has the higher benefit in the utilitarian dimension. Like for Nissan, the partnership allows an extension of market, particularly in the 4WD range. In 2008, for instance, the Renault 4WD, called "Koleos," was launched on the market. It was the first 4WD born from the alliance.

To sum up, the main findings of this study are:

- An affective component which allows to have a strong and stable image and influences positively the consumers' intention to purchase,
- In the case of a partnership, when a brand is more appreciated than the other there is a levelling up of image.

This information can be used by firms to adopt adequate marketing strategies. Indeed, if the affective component is high for at least one brand, it is adequate to communicate on the partnership because the consequences are beneficial for both firms. For example, in the case presented here it is possible to communicate on the symbolic and utilitarian dimensions to persuade consumers. On the contrary, we know that a low affective component for both brands could lead to a levelling down. The risk is to deteriorate the image of both partners. So, it seems adequate for each firm to improve their product independently in order to trigger a better attitude from consumers and then, they will be able to communicate on the alliance.

## CONCLUSION

The study presented in this article is interesting in two major respects:

- Firstly it takes into account the opinion of consumers on the governance, which is often neglected by firms. Actually, it presents a way to consider their opinion ie focusing on the consequences of governance,
- Secondly, it emphasizes a psychological variable which is likely to explain the negative consequences of governance on the consumers' perceptions and also moderates its effects on purchase intention.

The affective component has an important impact on the consumers' behaviour as was proved once in this study. In further studies however, it would be interesting to analyse other variables influencing the consumers in their choice, like involvement in the product (Zaichkowsky 1984; Kapferer, Laurent 1985).

The above proposed methodology opens out onto other research tracks. Here, to present the partnership we used a film with one model of car built by the two firms, which probably influenced the consumers' perception. Other means like a written description on paper or the presentation of several models of cars might lead to other results.

Finally, on a quantitative level, the main research issue would be to extend this procedure to other types of alliance. Here, we analysed the partnership between a national brand and a foreign brand which led to a levelling up of both brand images. Further research based on joint-venture, acquisition or partnership between two national/foreign brands could provide an interesting extension to the findings of this paper.

## APPENDIX 1

**Table A1: Brand image measurement in car sector– (Hsieh 2002).**

Dimension	Items
<b>Sensory</b>	- Exciting - Fun to drive - Good acceleration - Stylish - Sporty
<b>Symbolic</b>	- Luxury features - Prestige
<b>Utilitarian</b>	- Made to last - Reliability - Safe in accident
<b>Economic</b>	- Good fuel economy - Good dealer service

## APPENDIX 2

**Table A1: Dimension of brand image comes from exploratory and confirmatory analyses**

Dimensions	Items	Lambda	t- value
<b>Sensory:</b>	Exciting	0.74	34.19
	Good acceleration	0.79	35.48
	Styling	0.71	33.19
	Sportive	0.73	33.73
<b>Symbolic :</b>	Luxury features	0.73	23.22
	Prestige	0.77	23.50
<b>Utilitarian:</b>	Made to last	0.80	31.39
	Reliability	0.83	32.40
	Safe in accident	0.77	31.07

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***INTERACTIONS BETWEEN  
GLOBALISATION AND RETAIL  
PRODUCTIVITY:  
SOME GOVERNANCE ISSUES***

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## **Interactions between globalisation and retail productivity: Some governance issues**

### **Abstract:**

The interactions between retail productivity and globalisation are key relationships in the internationalisation of retail firms, yet they have received little attention from researchers. In this paper globalisation and retail productivity are defined from the literature and the latter concept is discussed from the perspectives of its determinants and methodological aspects. The interactions between these two concepts are then developed through a series of models which lead to questions of governance. Entry and expansion modes seem to be key issues when entering a new country and the correct choice between these modes of local governance may have a positive impact on productivity. A strategic approach is chosen to discuss governance issues at the headquarters level, which may need to change its management approach if plural form networks are necessary at the local level.

**Keywords:** country of origin, globalisation, governance, productivity, retailing

### **Foreword**

This paper arises from a research project involving the Institute for Retail Studies, University of Stirling; OXIRM (Oxford Institute for Retail Management) of Templeton College, Oxford University; and CREM (Centre de Recherche en Economie et Management UMR 6211) of the IGR-IAE, University of Rennes 1. This project has been initially supported in by a networking grant from the ESRC (Economic and Social Research Council) in the UK and the CNRS (*Centre National de la Recherche Scientifique*) in France with the financial support of the ANR (*Agence Nationale pour la Recherche*). Further details can be seen on the project website: [http://www.irs.stir.ac.uk/php/research\\_pubs/esrc.php](http://www.irs.stir.ac.uk/php/research_pubs/esrc.php)

The resulting network and seminar series organised in Rennes, Oxford and Stirling during 2007 and 2008 focused on the generic area of the interactions between globalisation and retail productivity. Taking an international perspective through British-French co-operation is particularly useful because the different management approaches to retailing and different research traditions bring complementary approaches to the debate and analyses.

The first seminar was dedicated to understanding the concepts, theories and methods related to globalisation and productivity. The second seminar dealt with the strategies retail companies implement in practice to make positive interactions between globalisation and productivity and the third seminar developed some research themes on the topic. This paper summarises some of the reflections stemming from these seminars and expands these to deal with the topic of this conference “Globalisation and Governance”. the paper reflects the efforts of all colleagues involved in this research project.

## **Introduction**

Globalisation and governance seem currently to be two fashionable concepts. Relating these two concepts can be of great value in understanding how firms overcome the challenges they face in international markets. In retailer internationalisation the key question of performance arises, requiring researchers to look at the impact of the globalisation phenomenon on firm performance, and to establish which governance system can lead to improvements in productivity.

In this paper, the international expansion strategies of retail firms are considered. The potential interactions between retail productivity and globalisation are examined, along with some issues relating to the implications of governance modes of market entry and expansion for local organizations as well as for the retailer's headquarters.

An important but under-researched topic in globalisation is the effects on the productivity of firms involved in international distribution. Popular accounts describe the activities of firms (such as Wal-Mart in China) but such accounts only serve to highlight the dearth of substantive research and knowledge in the generic area of the impacts of the globalisation of supply chains and store operations on productivity processes in the retail sector. Globalisation (Douglas and Wind, 1986; 1987) and productivity in retailing (Achabal, 1984; Ingene, 1982; 1984; 1985; Sparks, 2005) are complex concepts. This complexity has become particularly apparent as the retail sector has been re-structured over the last 20 years, in part as a result of globalisation processes particularly, but not exclusively, associated with supply chains and store operations.

Globalisation processes have a profound impact on the internationalisation of retailing and the management of retail firms, yet these firms also have a direct influence on the forms and functions of the globalisation process itself.

The concepts previously applied to retail productivity analyses, essentially limited to labour productivity largely at an establishment level, are not applicable to the complex relationships that now characterise retailing. Productivity must be seen in a wider context than the establishment; involve more input variables than labour; and explore a greater variety of output concepts. There is a need for the development of new conceptual and theoretical approaches to the definition and measurement of productivity in retailing.

The interactions between globalisation and productivity are apparent in productivity relationships throughout the whole retail channel and affect all stages of the value chain. International or globalised retailing should not be considered only in terms of the operation of shops in 'foreign' countries. An initial attempt to categorise the types of impact at the macro and the micro levels suggest that general and retail specific globalisation processes impact on productivity, at the country, channel and firm levels, in terms of:

- the sourcing of products for resale and the procurement of products and services for use within the firm. Productivity impacts occur on the retailer, on its suppliers of products and services, and on the competitors of its suppliers through demonstration and competitive effects. These impacts extend across a range of behaviours (for example negotiations and contracts), processes (for example technological and innovative) and structural factors (for example firm expansion). Productivity of a channel, and a firm, can both be affected in these ways by globalisation.



- the competitiveness and profitability of the retailer in the markets in which it operates. Globalisation encourages the retailer to operate shops in multiple markets and to have a multi-continental network of stores. This network structure - and the information and knowledge flows within it - influences the productivity of major international retailers, such as Carrefour, Ikea, Tesco, Zara, I-Y Holdings, B&Q/Castorama, Dixons and Wal-Mart. The impact of globalisation on store level productivity is present not only on the operation of the stores of the international firm but also on the operations of other retailers in the market through competition and diffusion processes. These effects impact upon the operational practices in the home market as well as in the multiple foreign markets.
- the amount, variety and composition of consumers' consumption. The mutuality of the globalisation and productivity concepts generates processes that deliver *new products to consumers*, for example fashion, furnishings, electronics, year-round specialist foods, *lower priced mass-market items*, for example shoes, house-wares, and *new brands*, for example Louis Vuitton, Lush. There is a shift in lifestyles resulting from the productivity changes linked to globalisation, and from globalisation resulting from productivity increases in retailing.
- the public policy response, with international retailers acting as catalysts for productivity enhancement in domestic firms and also generating power shifts with the sector. The extent to which changes are freely allowed, encouraged, or tightly managed is debated by public policy agencies. Often the response is reactive to threats of perceived horizontal and vertical power shifts within the distribution channel, arising from productivity changes and globalisation. Responses include measures to limit store openings in host markets, to mitigate changing retailer and supplier relationships in domestic and host markets, and to control trade patterns at the global level (e.g. WTO-EU textile dispute). In other cases, productivity enhancement is welcomed and encouraged with policy initiatives facilitating the diffusion of productivity improvements.
- the choice of governance modes both at the local (country) level through initial entry modes (Agarwal and Ramaswami, 1992) and later through expansion modes (Picot-Coupey and Cliquet, 2007), and at the firm's headquarters. A franchised network may have the opportunity to open stores internationally, but might face difficulties in finding good franchisees, and will consequently have to open company-owned units: this happened to Groupe Beaumanoir (a clothing retailer with several fascias: Cache-Cache, Bonobo, Scottage, Patrice Bréal and Morgan) from France when they expanded into China, where they now have more than 200 stores with very few franchisees. In these instances the headquarters has to manage units in the foreign market in a very different way from their usual franchise network management.

Although there are these strong links between globalisation and productivity, with influences acting in both directions, we presently understand very little about these interactions in retailing and distribution: how they relate to managerial cultures in the firms; how they are changing; the extent to which they differ in different politico-economic regimes; and what are the implications in terms of governance especially at the local level. Empirical studies are needed to explore these connections in both channels and firms, but first a conceptual framework should be built, involving globalisation, productivity and governance considerations. Additionally these relationships in a retail context have important socio-economic and political ramifications that are currently neither clearly identified nor understood.

In the remainder of the paper we will first briefly describe globalisation in the retail sector, followed by retail productivity. Then, we will deal with interactions between these two concepts, and highlight some of the governance issues for retail firms.

### **The globalisation in the retail sector**

What is globalisation? Levitt defines globalisation as a strategy dealing with a world considered as one large market (1983) in which consumers are becoming more and more alike and hence experience a converging commonality with more and more products which can be designed the same way despite cultural differences (1984). But what can and can not be globalised? What needs to reflect local environmental issues? (Wind, 1986). The longstanding debate over whether globalisation a myth (Douglas and Wind, 1986; 1987) or not (Gwynne, 2003; Spich, 1995; Stevens and Bird, 2004; Went, 1996) is far from being resolved. This question has been asked primarily in the context of goods but what about services and more specifically retailing?

No retailer has reached a real global position at the world level with respect to our traditional views of “global”. The question should rather address which stage the globalisation process has reached in retailing (Leknes and Carr, 2004). Some take “globalisation” to be reflected in the number of countries or regions within which a firm operates (i.e. market coverage). Carrefour which is one of the most internationalised grocery retailers is present in about thirty countries but large areas of the globe remain untouched. Similarly, Wal-Mart is not considered a global business and has no global strategy according to Rugman and Girod (2003). Others define “globalisation” in respect of the approach to marketing or trading strategies (i.e. market approach) (Salmon and Tordjman, 1989). From this perspective Laulajainen (1991) identified IKEA and Toys ‘\_’ Us as global retailers almost 20 years ago. We can also debate other dimensions suggested from the growing number of classifications in the literature (Alexander and Myers, 2000; Burt et al, 2008; Helferich and al, 1997; Wrigley, 2002).

In retailing, it may be more appropriate to speak about “glocalisation” instead of globalisation. Being “glocal” (Drucker, 1982) means that retailers who want to go global should take into account local conditions - as it has been shown as far as youth culture is concerned (Kjelgaard and Askegaard, 2006). This viewpoint leads us once again to question globalisation as a myth. When considering the linkages between globalisation (however defined) and retail productivity, the key point is how can we adapt to local conditions at the lowest cost? How can a retail company which wants to go “global” maintain its productivity in an international context where regulation, consumer habits and infrastructure are different from what is found in the domestic market?

### **Productivity in retailing**

Generally speaking productivity is defined as the relationship between physical output and a physical input, with all other inputs constant (Achabal, Heineke, and McIntyre, 1985). In the case of services this leads to greater difficulties in capturing inputs (Heaton, 1977) and if retailing is considered as a service activity (Goodman, 1985), the problem becomes both conceptual and methodological.

Retail productivity has been tackled by several authors since a seminal article focusing on retail labour productivity (Ingene, 1982) and the special issue of the *Journal of Retailing* in 1984 (Achabal, 1984). Further special issues include one on channel productivity in the *International Journal of Research in Marketing* (Bultez and Parsons, 1998), and a special issue of the *International Review of Retail Distribution and Consumer Research* (Sparks, 2005) which summed up the most recent developments on the topic with a focus on the UK.

Many perspectives were developed in these articles on retail productivity (for example Achabal et al., 1984; Reynolds et al., 2005) but one of the recurring challenges in retailing is that of measurement (Achabal, Heineke, and McIntire, 1985; Griffith and Harmgert, 2005; Reardon and Vida, 1998). Several alternatives have been put forward: the DEA method (Donthu and Yoo, 1998; Keh and Chu, 2003); the stochastic frontier method (Barros, 2005); specific indicators (Dobson, 2005); the Malmquist productivity index (Barros and Alves, 2004), whilst others have argued that methods should incorporate consumer satisfaction measures (Reynolds and Biel, 2007), and Dubelaar, Bhargava, and Ferrarin (2002) have asked what really matters when measuring retail productivity.

A second common issue in the literature is the level of analysis: store level (Barros, 2005; Guy, Bennison, and Clarke, 2005; Jorge Moreno, 2008); network level (Barros and Alves, 2004; Kamakura, Lenartowicz, and Rachtford, 1996); or firm level (Keh and Chu, 2003).

Some researchers have developed sectoral retail productivity measures related to either a specific product sector: food retailing (Good, 1984; Park and King, 2007; Ratchford, 2003), fast-food (Doutt, 1984); or to the organisational form: franchising (Darr, Argote, and Epple, 1995; Hennessy, 2003) given that franchising is often the chosen organisational form of entry mode at the international level (Fladmoe-Lindquist and Jacque, 1995). Finally others propose productivity measurement linked to specific factors: administrative productivity (Barthélemy, 2004), service productivity (Grönroos and Ojasalo, 2004; Darr, Argote, and Epple, 1995), and labour productivity (Ingene, 1984; Lusch and Moon, 1984; Thurik and Van der Wijst, 1984).

If retail efficiency is measured through profit or sales density (e.g. productivity per square metre) or through labour productivity (e.g. productivity per employee) (Reynolds et al., 2005), then efficiency can be increased through at least five sources:

1. an increase in size of store format;
2. an increase in network size;
3. the development of information and communication technology (eg ICT);
4. a change in labour organisation (e.g. by making working hours more flexible);
5. an increase in retailer buying power.

These sources then define five factors: 1 - store format; 2 - network size; 3 - ICT; 4 - labour organisation; and 5 - buying power. Factors 1 and 4 are directly related to the store level, whereas factor 2 is, directly linked to the network level, and factor 5 to the retail firm level. Factor 3 can be related to the store, network and firm levels. Public policy through regulation, and cultural issues evident in consumer behaviour, can influence all of these five factors.

As far as factor 3 (ICT) is concerned, it is very difficult to assert that information technology may directly improve retail productivity. Although a number of articles exist (Achabal and McIntire, 1987; Johnson, 2002; Park and King, 2007; Reardon et al., 1984) none of these provide empirical support but rather just state opinions.... Robert Solow said in 1987: "You can see the computer age everywhere but in the productivity statistics". Triplett (1998) tried to explain the Solow paradox, and other authors have also strived to show the impact of ICT on productivity (Fernald and Ramnath, 2004). O'Mahony and Van Ark (2005) defended the idea of a real impact of ICT on retail productivity, whereas Reynolds et al.

(2005) are more cautious about ICT when talking about the need for a more clever use of technology “particularly in relation to space”. Park and King (2007) also tried to highlight the ICT influence through a stochastic frontier method. The debate concerning the impact of ICT: ICT as not an easily measured factor of productivity.

Paradoxically, it is widely recognised that more information is needed to support a successful globalisation process, and more specifically to operate in local markets which are often remote from the domestic market and hence more costly and risky (Martin, 1988). The development of geo-marketing techniques (Cliquet, 2006; Drouard and Heitz, 2004) is one way that retailers can improve their information systems in a local market, and therefore they develop a real “glocal” knowledge, but this is at a high cost which then questions the gain in retail productivity, unless the scale of the network mitigates against the sunk cost.

### **Possible interactions between retail productivity and globalisation**

Interactions between globalisation and retail productivity can be compared to a spiral phenomenon. The two main sources of productivity increase obtained from pursuing a global strategy are:

- the increase of network size at the international level;
- the increase of buying power at the international level.

An increase in the network size is strictly related to economies of scale and the development of retail brand awareness at the level of the firm: the larger the number of stores, the greater the economies of scale. Outputs can increase with almost no new inputs. Growth of network size is facilitated through the internationalisation process. Indeed if new stores are located in countries which are culturally close to domestic market conditions, the globalisation process can help increase productivity as well. However this relationship could be envisaged differently if the internationalisation process leads to expansion into countries which are culturally very different. This brings us back to the question of definition: should we consider globalisation as a presence on all continents (Africa, Americas, Asia and Europe) or in all large countries?

An increase in retailer buying power is probably the most characteristic feature of the relationship between retail productivity and globalisation. To benefit from productivity gains through a global purchasing process needs a strong negotiation; an efficient purchasing organisation, and impeccable logistics. In other words, supply chain management is a key success factor in retailing if it is able to bring real value to the distribution process (Ketchen and Hult, 2007) and especially at the international level (Swoboda, Foscht, and Cliquet, 2008).

From this discussion, a first proposition emerges which deals with the link between the internationalisation process and retail productivity. By enlarging its market area across international boundaries, a retailer can on the one hand spread its fixed costs over a larger number of outlets, and on the other hand increase its product purchasing capacity to obtain better prices and terms from suppliers. Theoretically, productivity grows and increases each time a new country is penetrated through the globalisation process. By generating larger financial returns in this way retailers are also able to develop more accurate and effective information processes through for instance geo-marketing techniques (Cliquet, 2006; Fady, Renaudin and Vyt, 2008). This micro-marketing strategy, in turn, pushes domestic retailers to implement such techniques as well. However, at least two factors could hinder this relationship: local cultural issues and local market regulation.

### **Insert Figure 1**

This phenomenon looks like a spiral because although globalisation normally entails an increase in overall retail productivity, which enables companies to conquer new markets and then achieve new gains in productivity and so on, when a new country is entered at first costs are high and retail productivity falls, before retail productivity increases again. This spiral works if, and only if, retailers going international are able to adapt their retail concepts and operational methods to suit local conditions: i.e. local cultural issues and local market regulation. For instance Carrefour left South Korea and Japan after failing to adopt to local market conditions.

### **Insert Figure 2**

Problems can also occur as geographical and cultural distance increases, because costs could rise. These costs relate to either coordination and/or control depending on the organisational form chosen to enter and then develop retail activities in the new market (Picot-Coupey, 2006), and from the costs of managing cultural differences as a new market entrant.

Domestic retailers are also affected by the globalisation process (Dawson, 2003; Coe and Hess, 2005). Whenever a foreign retailer enters a market, the more dynamic local retailers learn from the newly imported business methods, whereas the less dynamic companies suffer. The best domestic retailers may then ultimately export the new know-how learnt from international retailers. This is probably what happened to Korean retailers who benefited from the economic liberalisation of their domestic market (Lee and Choi, 2004). Organisational learning, in a globalised world, is not simply and internal process.

### **Insert Figure 3**

Therefore a second proposition emerges, concerning the relationship between the globalisation process and domestic retailer productivity. Proactive and adaptive domestic retailers can benefit from the entry of international retailers into their own markets: First by being able to strengthen their position within their domestic market; second by eventually taking over failing (non adaptive) local retailers, thereby developing their domestic market position; and third by eventually starting an international diffusion process of their own.

As noted earlier other factors can also play a moderating role in these relationships. In some countries, regulations concerning store size or working hours are for example different. Less regulated countries can provide retailers with a higher productivity gains and higher revenues, which can enable them to be more competitive in other international markets and often even in their own domestic market.

This exogenous factor (regulation) may also stimulate the interactions between productivity and globalisation in an indirect way. Whenever the French government has attempted to restrict domestic retailers from developing too many large retail formats it has inadvertently boosted the internationalisation efforts of some of these retailers. This was the case twice: in 1973-74 when the Royer Act was passed and between 1993 and 1996 when E. Balladur, the Prime minister, decided to stop any new large store opening, until the Raffarin Act (1996) changed this position. Presently a new act, the LME (*Loi de Modernisation Economique*), has been passed by the French Parliament to liberalises the location process for small stores (below 1000 m<sup>2</sup> in size). One of the consequences of this legislation could be that French retailers will become more concerned with protecting their domestic market from French or foreign contenders than with international activities and the pursuit of the globalisation process. A similar liberalisation process was studied in South Korea (Lee and Choi, 2004) and other studies especially from the OECD have tried to examine the impact of

regulation on retail productivity (Pilat, 2005). A related question also arises: what influence does the globalisation process itself have on the liberalisation in the retail sector? It is widely argued, for example, that the French government has made its decision because raw material prices are increasing at the international level...!

#### **Insert Figure 4**

A number of propositions can be defined from Figure 4 (Cliquet and Burt, 2009): A first series deal with the moderator effect of globalisation on the relationships between retail productivity and its determining factors; a second series considers the moderator effect of cultural issues and regulation on the relationship between globalisation and specific factors of the retail productivity.

Beyond these propositions, it is also of interest to revisit these interactions through a strategic approach in order to highlight governance issues. The link between strategy and governance in retail firms has already been highlighted, especially at the level of the board of directors (Berry and Lusch, 1996). These authors considered most of these boards to be ineffective, because of the lack of information, and the internationalisation process is unlikely to improve this situation. However, according to the same authors, improvements in retail governance are necessary to overcome growing competition. The Porter model (Porter, 1980, 2008) can provide one framework for considering to what extent the five sources of retail productivity identified above, are “strategic” (Figure 5).

#### **Insert Figure 5**

The model shows how factors 1 (increase in store size) and 2 (increase in network size) can be related to factor 5 (increase of bargaining power) for retailers to impose their thinking upon suppliers and to drive innovation, which can play a role in the interactions between globalisation and retail productivity. The model also highlights the importance of ICT (factor 3), through the threat of substitute products and services, especially in the form of internet use - for instance in the “drive” system for grocery stores (Bevan and Murphy, 2001) which entails new shopping modes (Picot-Coupey et al., forthcoming). Through the bargaining power of buyers construct, two kinds of threats appear: one for the internationalising retailers who could face a consumer reaction to their fascia - like some products have done - through a “country of origin” effect. These perceptions could be either positive or negative (eg Wal-Mart had a negative image in Germany, and Carrefour had problems in China for political reasons). The second threat is that of the new entrant to domestic retailers who fail to respond to the foreign “invaders”. Finally, concerning the rivalry among competitors, productivity becomes a key issue. According to Ingene (1982) for example, labour regulation varies from market to market and impacts upon labour productivity. Moreover competition can be inter-format or intra-format (Gonzales-Benito et al., 2005) which make comparisons difficult because of disparities depending on specific regulations or typical conditions within certain geographical sectors (tourist regions for instance): hence store location is of importance.

In summary, examination of the interactions between globalisation and retail productivity leads to several key questions for the internationalisation process of retailers:

1. the comparison of the performances of retailers through their international expansion, taking into account inter- and intra-format competition and local regulations especially those dealing with labour conditions;

2. the impact of size (stores and network) at the international level on the bargaining power with suppliers, and the consequences for supply chains, and the ability of retailers to develop innovative products (goods, services and new formats);
3. the ability of retailers to develop multichannel strategies through the Internet at the international level and to understand new shopping modes;
4. the resilience of domestic retailers and the consequences for foreign retailers;
5. the resistance vs. acceptance of foreign fascias by local consumers with considerations of geographical, cultural (Shenkar, 2001) and psychic (Sousa and Bradley, 2006) distances;
6. the governance issues stemming from the interactions between retail productivity and globalisation. It has been shown very recently that there is a positive association between efficiencies (productivity as measured through a DEA method) and corporate governance in retail firms (Bhat, 2009)

The first five questions will constitute new bases for future research which should be answered by managers before defining new governance rules in order to be sure that globalisation has a positive impact on retail productivity. The last question about governance issues stemming from the interactions between retail productivity and globalisation is now considered at both the levels of the local market and the firm's headquarters. This raises a complex series of problems mixing governance structures and expansion strategies.

### **Some issues for the governance of retail firms**

The internationalisation process leads to several governance issues: some at the local level dealing with entry then expansions modes, others at the headquarters level, both for the board of directors and for operational management.

At the local level, entry modes are key choices. Gielens and Dekimpe (2001) have shown empirically that entry modes influence post-entry sales and efficiency, especially when entering early by offering a new retail format in emerging economies. However, entry modes may be determined by local circumstances and regulation. To provide three examples, entry into the Chinese market was initially difficult for foreign retailers as firms had to be at least 51% owned by local. Consequently, joint ventures were often chosen before the liberalisation of market entry regulations. Today it is still difficult to find reliable franchisees and franchised networks often start Chinese networks through company-owned units with salaried staff use - the management of whom is totally different from franchising, and is often difficult due to the distance (geographical, cultural and psychic). The costs of controlling networks at a distance (Kaufmann and Lafontaine, 1994; Martin, 1988) can raise dramatically and hinder retail productivity. In contrast, some countries cannot be entered without a franchised system: for instance Carrefour needed a Dubai master franchise to enter Dubai, then Egypt and probably Lebanon. Carrefour, despite becoming the largest French franchisor in September 1999 when it merged with Promodès, is not primarily a franchising organisation – especially for large stores. Finally, India is still a closed market with retailers looking to enter this market having to form joint ventures with local firms (Hiscock, 2008). As these examples show, entry modes are often different from what the retailer would like to implement, and this has consequences for governance structures. Most of these retailers will at some point try to revert to their “more usual” organizational forms, once they are more firmly established in the country. This is the reason why some authors distinguish between expansion modes and entry modes (Picot-Coupey, 2006).

Finally organizational forms and their associated governance issues can change from one country to another and sometimes become obstacles to to productivity of operations in specific countries. Plural forms (Bradach, 1997; 1998) in retail and service networks (which means both franchised and company-owned units within the same chain) can be difficult to implement according to the original organization of the firm. The main drawback of such a system is in having a dual management system because it is difficult to manage company-owned outlets with salaried managers which are run in a hierarchical way and franchisees who need to be convinced before any decision (Cliquet, 2000). These two governance modes: based on hierarchy on the one hand, and on conviction on the other, often need to be implemented separately in a company and can become costly, with consequences for retail productivity. It is sometimes even more complex when other entry or expansion modes are implemented as it often the case in a sector like clothing retailing where franchising, wholly-owned systems, affiliated arrangements, corners in department stores and so on (Picot-Coupey and Cliquet, 2007) are commonly used.

At the global level (headquarters of the firm) there are two important governance issues: the information of the shareholders and the ability to resist to predators. The SOAR (Strategic and Operating Assessment for Retailers) model (Berry and Lusch, 1996) is presented in Table 1 as one response to the difficulties faced by boards of directors who represent shareholders in public retail companies. Berry and Lusch warn of dangers of “information overload” which “creates distracting noise that can hide key signals of a company's effectiveness and efficiency”.

### **Insert Table 1**

Assessing the operations of national expansion can quickly lead to information overload in retail activities and a fortiori when dealing with international expansion. Managers are always ready to champion their point of view in opening new units in other countries. But a board of directors should be in the position of asking the right questions in order to avoid the failures observed in international retailing - even in the largest retail groups eg Wal-Mart, Carrefour, Ahold and Tesco have all withdrawn from individual international markets. These unsuccessful operations are costly even though failure is always difficult to predict (Burt et al, 2003). Retail governance should be based on more reliable information and a system which supports board members in order to prevent them from signing any “blank cheques”. Future research should address these key points by trying to measure retail productivity in various organizational systems and to present information in a decisive way.

Protecting the retail company against potential hostile takeover is another stake. Companies with stronger shareholder rights have better results in terms of profits, sales, capital expenditures, and firm value (Gompers et al., 2003). These shareholder rights can be reinforced through antitakeover provisions to avoid being a target for hostile predators (Bhat, 2009). But such a governance strategy should lead to a higher level of financial results. Hence increasing productivity makes sense.

### **Conclusion**

Globalisation can be considered as a facilitator to retail productivity for international retailers. But other coordination costs can occur due to physical distance, cultural issues and specifically cultural distance (Glenn and Alston, 1968; Kogut and Singh, 1988), and psychic distance (Klein and Roth, 1990) - both being considered together (Sousa and Bradley, 2006), or as country of origin issues (Miranda and Konya, 2006; Thorelli et al., 1989). The country-of-origin issues can be treated as a moderating variable through the Baron and Kenny (1986) procedure given that this variable should not be correlated with either the explanatory



variables or the dependent variable. The same procedure can be used for regulation. A typology of countries, and at least a distinction between developed countries and the others, is probably necessary because large retailers seem to have much more difficulty in entering developed countries than emerging ones. Globalisation can be also a hindrance for domestic retailers in the host markets which cannot adapt to modern formats or new management methods.

Is globalisation able to improve retailers' information systems and the buying power of retailers especially through international supply chain improvements? This is also a key question and probably the key to Wal-Mart's success even though this company has had difficulty in adapting its operational concepts and methods in market, without talking about governance issues.

Globalisation has no real meaning in retailing, and "glocalisation" probably fits better. Adaptation to local conditions seems to be a key point in international retailing but it is a costly approach for retailers who are not accustomed to a long term investment process as is traditionally the case in a manufacturing environment. These adaptation costs due to cultural differences and local regulations or logistics management issues reduce the productivity gains of international retail expansion during a period of time which needs to be as short as possible. This is likely to be the price to pay for increasing retail productivity through international expansion. But political borders are not always relevant to geographical market segmentation. Sometimes geographical markets cross borders as has been shown in Europe for meat (Hofstede et al., 2002).

Last but not least issues do arise concerning governance. The objective of these future research projects is to provide managerial and strategic perspectives to retailers in order to prevent them from reducing their productivity when going global, and to define the right governance mode to allow better control from the perspective of the board.

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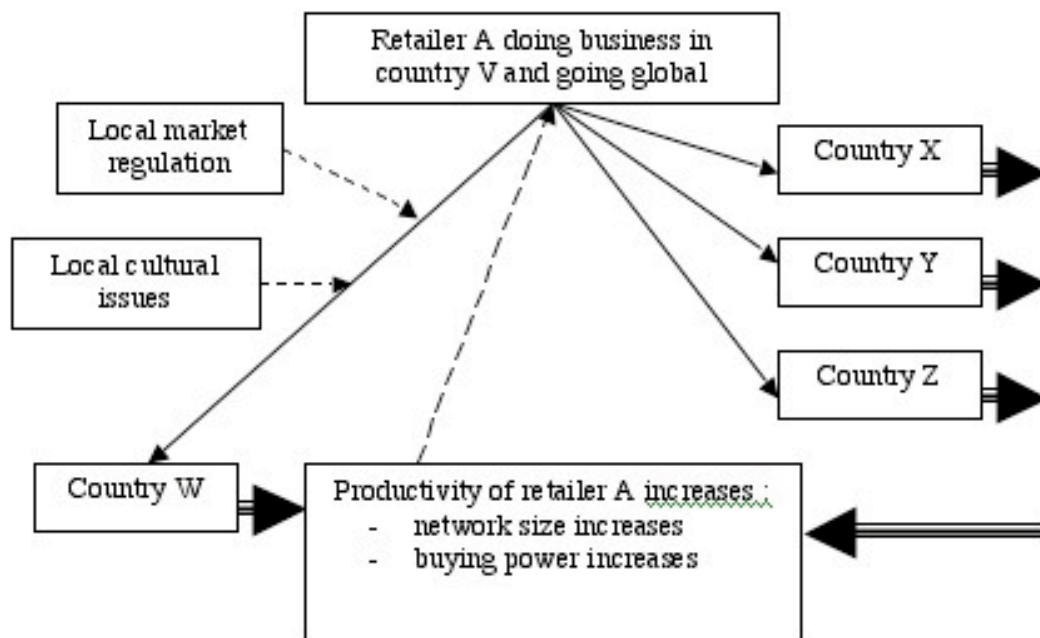
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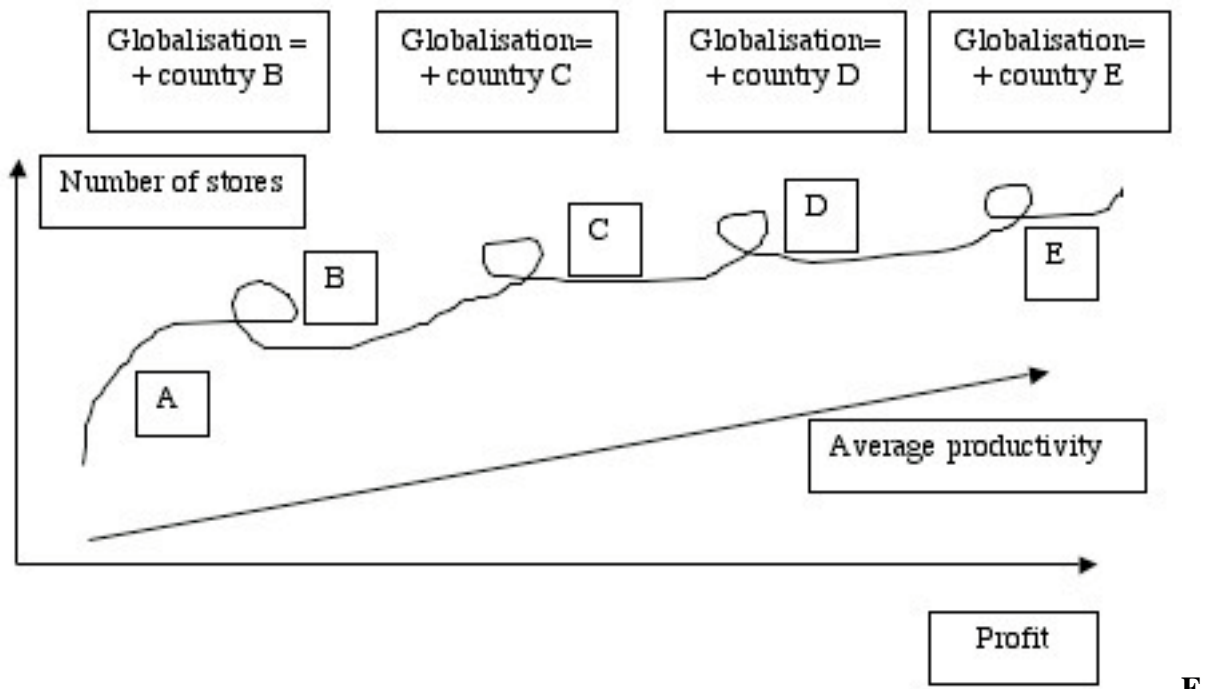
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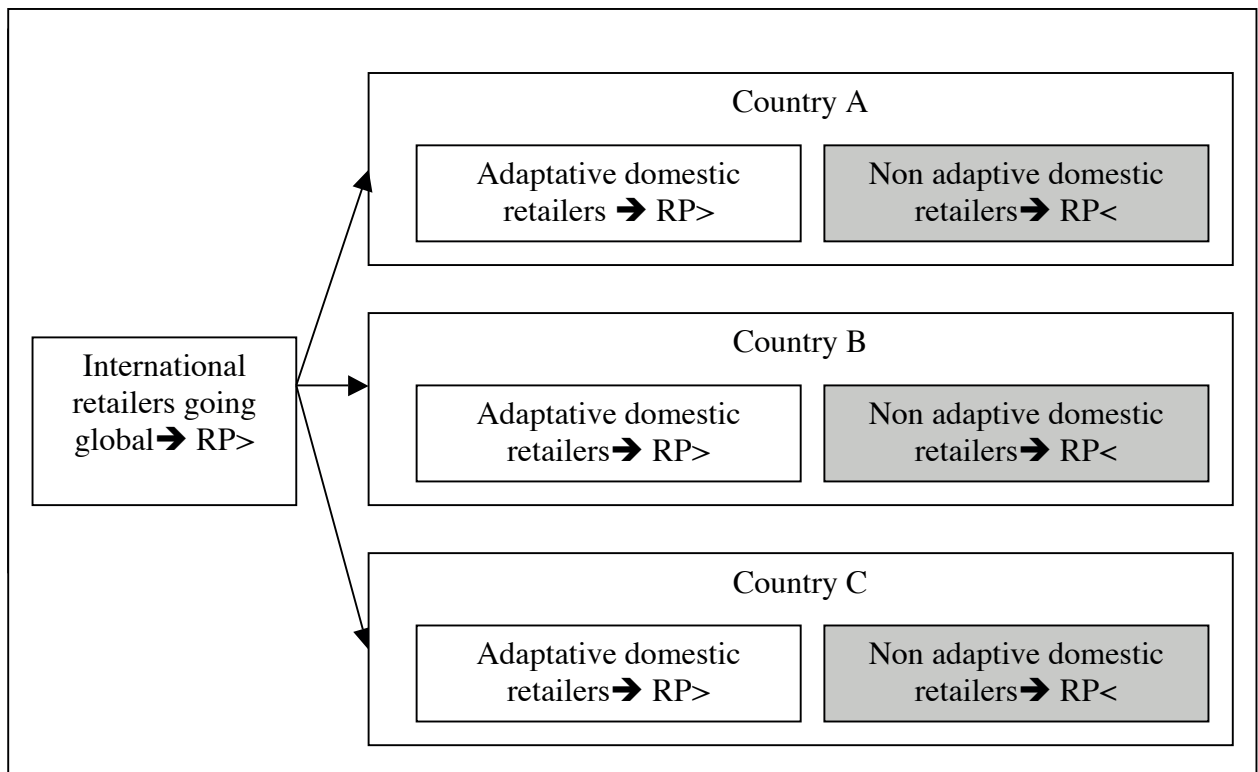
**Figure 1: Interactions between retail productivity and globalisation**



**Figure 2: The spiral phenomenon of a global retailing from a country A**



**Figure 3: The double effect of the retail productivity - globalisation interactions on both international retailers and domestic retailers**



International retailer entry in country A → competition increase → strong domestic retailers learn from the confrontation, adapt and reinforce their concept and increase their productivity whereas non adaptive domestic retailers disappear. They are then able to expand by taking over non adaptive domestic retailers.

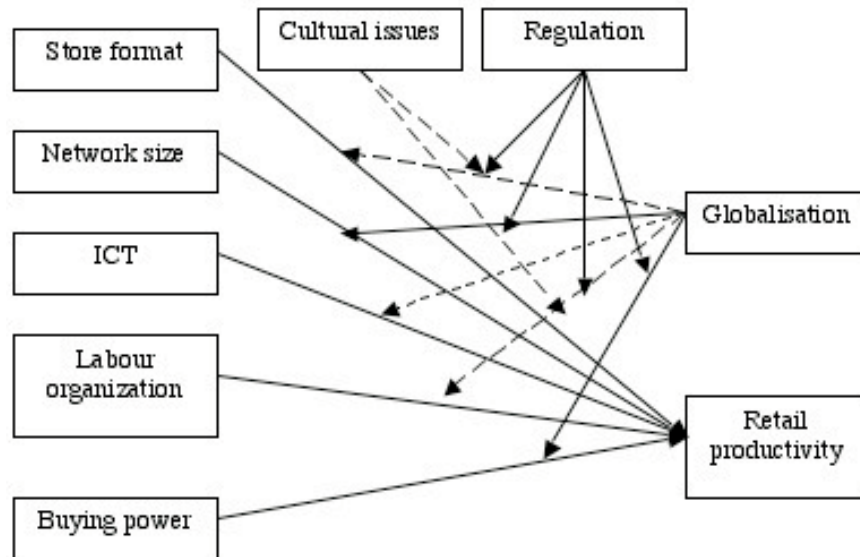
International retailer entry in countries A, B, and C → reinforce their own productivity.

**Figure 4: Globalisation as a moderator of retail productivity construct for a global retailer**

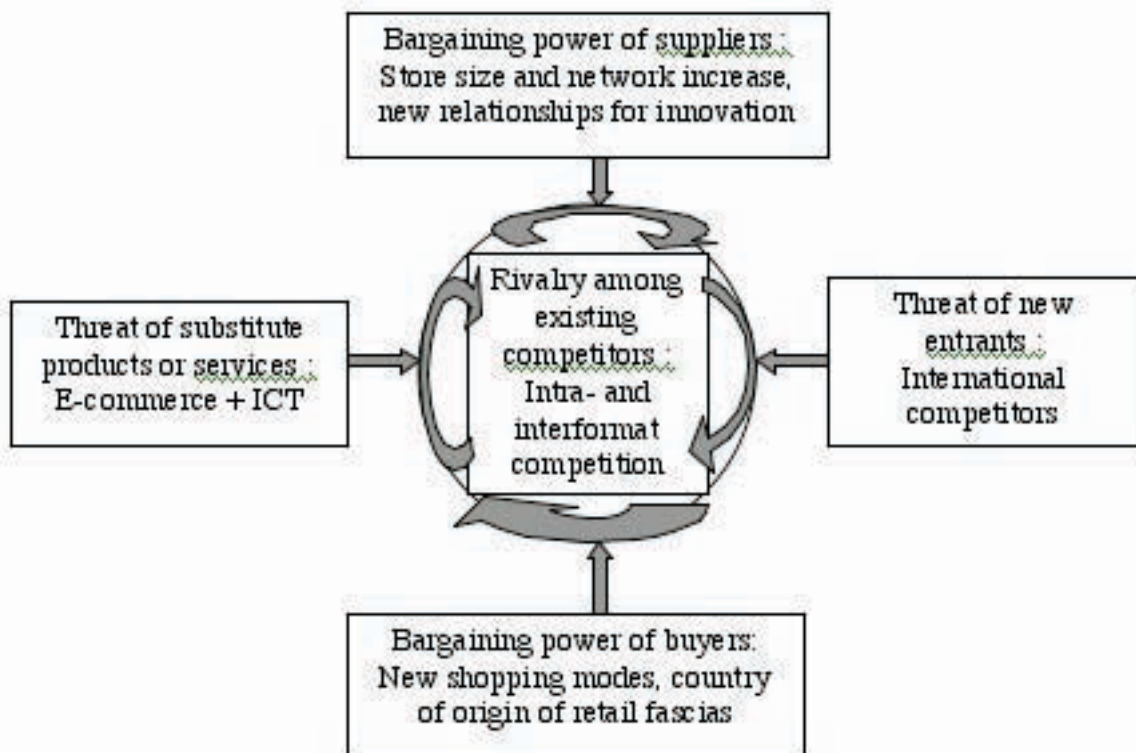
Plain arrows: direct relation

Wide dotted arrows: indirect relation

Small dotted arrows: direct but weak relation



**Figure 5: Porter's model applied to retailing**





**Table 1: Strategic and operating assessment for retailers (SOAR Model)**

<b>Strategic assessment</b>	<b>Operating assessment</b>
Environment	Sales performance and expense control
Core Strategies	
Core competencies	Resource productivity
Stakeholders relationships	Cash flow
Wealth creation	

Source: Berry and Lusch 1996

# ***BUILDING ONLINE-TRUST ON GEOGRAPHICAL PROXIMITY AND CULTURAL PROXIMITY***

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## **ABSTRACT**

With more than 600 million users, Internet represents an enormous potential of B-to-C commerce. Because of the « ubiquitous nature of the Internet » (Lim 2003), vendors can sell their products to consumers worldwide.

However, consumers are generally reluctant to purchase products overseas (Lim 2003). For example, only 24% of the french Internet users feel no hesitation to purchase products from foreign vendors.

The major obstacle seems to be the lack of trust in the e-vendor (Baldwin & Currie 2000 ; Head & Hassanein 2002 and 2003) due to the underdeveloped legal environment of electronic commerce.

This paper investigates the impact of vendors' origins on consumers' trust in the absence of governance of online transactions. More precisely, we demonstrate that perceived geographical proximity and perceived cultural proximity reassure consumers when buying on Internet and that trust is a formidable substitute to legal governance.

Our results suggest that the cultural proximity participate to trust building and that geographical proximity is nearly ineffective on trust.

**Key words :** Governance, Online-Trust, Internet shopping, Geographical proximity, Cultural proximity

## **INTRODUCTION**

« The Internet promises to revolutionize the shopping » (McKnight, Choudhury and Kacmar 2002) and selling. Internet is transforming the purchase behaviour of more than 600 million users, 325 million users in Europe. E-commerce has been a widely used mean to purchase goods and services all over the world (Connolly et al. 2007). In 2008, 32% of the europeans have purchased products or services via Internet versus 20% in 2002 (Eurostat 2008). A constant increase is foreseen within the next years. In 2011, the amount spent via Internet is estimated at 263 billion euro (Forrester). However, statistics demonstrate that to reach this volume, electronic commerce has to gain trust from consumers.

Online purchases have not reached « a point of critical mass » (Hassanein and Head 2004), mainly because of a lack of online consumer trust (Baldwin and Currie 2000; Head and Hassanein 2002). In the e-Commerce environment, where transactions are more impersonal, anonymous and automated, trust is a key element for any business exchange.

In France, only 3% of the population has completely integrated Internet in their consumption habits (Harris Interactive 2008). 53% of the European consumers claim they do not completely feel trust on Internet to acquire a product (Harris Interactive 2008). 64% of the American users feel reservations about e-commerce sites' trustworthiness (Princeton Survey Research Associates 2002).

Past research on e-commerce showed that the greatest barriers in its expansion and adoption is the lack of trust (Gefen, Karahanna, and Straub 2003).

This explains the fact that « while vendors on the Internet may have enjoyed an increase in the number of clicks on their Web sites, they have also faced disappointments in converting these clicks into purchases » (Kim, Xu and Koh 2004).

This lack of trust is mainly due to the fact that Internet shopping involves more uncertainty and risk than traditional shopping. The reason is the underdeveloped legal environment of electronic commerce and the absence of governance. Internet is generally considered a « zone de non-droit ». « In the electronic commerce context, consumers have no control over the online vendors, no guarantee of the quality of the online content, and no power to influence the website's behaviour » (Hsu 2008). Moreover, if the transaction is a failure, consumers experience difficulties to have their purchase repaired, exchanged or refunded.

The lack of trust in e-vendors is particularly deep when dealing with a overseas e-vendor. Although one of the advantages of e-commerce is the possibility to purchase products from all over the world, most consumers are reluctant to do so (Lim 2003). For example, only 24% of the French Internet users feel no hesitation to purchase products from overseas vendors (Fevad 2008). 13% feels too dangerous to purchase products from a overseas site and 15% simply do not buy overseas (Journal du Net 2001). Consumers doubt the quality of products that they will receive. « Because of different standards, some overseas products may be unsuitable for local use ». Consumers « are worried that businesses are likely to refuse to take responsibility for damaged products » (Lim 2003).

Then, we face a paradox : *Whereas* Internet represents a fantastic tool to reach consumers that were traditionally unreachable due to their distance, consumers remain unreachable because of their lack of trust in overseas e-vendors.

In this study, we investigate the impact perceived proximity on online-trust. Specifically, this study seeks to answer two research questions: (1) Does perceived geographical proximity reassure consumers ? (2) Does perceived cultural proximity reassure consumers ?

The structure of the paper is as follows: The concepts of online trust and governance in Internet are briefly discussed in Section 1. A model for studying the impact of perceived geographical proximity and perceived cultural proximity on online trust is introduced in Section 2 along with the various hypotheses for this study. Section 3 and 4 outline the methodology and data analysis of our experimental study. Finally, Section 5 contains a discussion of our findings and some conclusions.

## **THEORETICAL BACKGROUND AND CONCEPTUALISATION**

Before examining the relationship between perceived geographical proximity, perceived cultural proximity and online trust, the primary concern of marketers will be to better understand the concept of online trust. We propose in this part of our study a literature review to specify the term : its definitions, its links with uncertainty and risk, and its role in consumer behavior. This paper will begin with a brief review of the authorities that intervene in Internet to rule commerce transactions and protect consumers.

### **INTERNET AND ITS LACK OF GOVERNANCE**

There is no specific authorities, nor rules dedicated to the online environment. Yet, there is a « lack of clarity about legal standing of online rules and legal jurisdiction over the Internet » (Pavlou et Geffen 2004).

As stated by Pavlou et Gefen (2004), « because of the unclear and underdeveloped legal environment of e-commerce, some institutional mechanisms used in online marketplaces do not enjoy the same legal protection and enforcement provided by governmental agencies in traditional markets ».

At a national scale, the rules that govern the commerce transactions over the Internet are the national laws.

At an international scale, two cases are possible. In the first one, the e-vendor and the consumer are both in the european community. Since laws between the european countries have been uniformed, the consumer should not experience too much difficulties if s/he has to lodge a complaint. The judgment taken by the court in the consumer's country should be applied in the country of the e-vendor.

When dealing with a e-vendor who is outside the european frontiers, the risk is higher in case of lawsuit. Each country has its own rules that determine which jurisdiction is relevant and which laws must be applied. Therefore, law conflicts generally appear. Moreover, once the judgment taken by the court in the consumer's country, there is no warranty of its application in the e-vendor's country.

The absence of international laws and courts dedicated to the online transactions thus generates uncertainty for the consumer when dealing with an overseas e-vendor. Uncertainty refers to the extent to which an individual or organization cannot anticipate or accurately predict the environment (Pfeffer and Salancik 1978). Liang and Huang (1998) identified two types of uncertainties in an e-commerce transaction: (1) product uncertainty and (2) process uncertainty. Product uncertainty refers to uncertainty on the quality of the product that will be received, while process uncertainty addresses how transactions are carried out.

Aware that the degree of freedom of their overseas supplier is quite important, consumers know that the behaviour of their trading partners is not fully predictable. The e-vendor could never send the merchandise and debit the account, could debit more than the amount that was announced, could send a counterfeit product pretending it is a genuine product, or could refuse to take responsibility for damaged products.

This uncertainty about future events generate risk for consumers. Risk assessment can be defined as the amount that would be lost if the consequences of the act were not favourable;

and the individual's subjective feeling of certainty that the consequences will be adverse (Cunningham 1967). The two components are often multiplied together to provide an overall perceived risk. If consumers perceive risk, they expect a potential loss (Littler and Melanthiou 2004). These authors suggested « it arises because consumers' actions are faced with probably negative consequences ».

Kaplan et al. (1974) identified five types of risk: performance, physical, financial (called economic risk), psychological and social. A sixth could be added : time loss (Roselius 1971). Performance risk refers to the fact that the product may be defective ; physical risk to a potential health threat, financial risk to the possibility of monetary loss related to the purchase on Internet or the perceived likelihood of not getting the best value for money (Boksberger and al. 2007) ; psychological risk to stress experienced during the purchase or consumption, social risk to the possibility to send a negative image from oneself to others or to lose one's self-esteem due to the consumption of the product ; and time-loss risk refers to the possibility to lose one's time to return defective products.

Consumers dislike uncertainty (Qiu and Lee 2008) and taking risks. When making a purchase decision, consumers want to be quite sure that they are choosing the best alternative and that they will not regret their choice. Too much perceived uncertainty and too much perceived risk thus inhibit decision making. « Previous research shows that uncertainty during the purchase process may reduce customer loyalty, undermine consumer confidence, and delay purchase decisions » (Qiu and Lee 2008).

## **ONLINE TRUST**

### **Uncertainty and Trust**

Uncertainty is a prerequisite for trust existence (Lewis and Weigert 1985 ; Zazzali 2003). Without a minimum of uncertainty, all the future events are perfectly known in advance. Consumers have thus no need to suppose the e-vendor's behaviour will fulfill promises and will not adopt an opportunist behaviour. « As a consequence, uncertainty and trust are closely related in a logical sense » (Liang et al. 2005).

If a minimum uncertainty is required for trust building, too much uncertainty produces the opposite effect.

Trust is a major factor influencing consumer behavior, especially in the ecommerce context where uncertainty predominates (Ba and Pavlou 2002; Friedman et al. 2000; Gefen et al. 2003; Pavlou 2003). Trust helps consumers overcome perceived uncertainty (Lewis and Weigert 1985 ; Liang et al. 2005). As stated by Pavlou and Gefen (2004), « trust is one of the major social uncertainty reduction mechanisms ». Consumers are thus motivated to build trust to reduce perceived uncertainty.

Past research studied the relationship between uncertainty and trust with a static approach. This could explain the absence of consensus on the direction of the relationship. In some previous researches, perceived uncertainty is viewed as an antecedent of trust, in other ones perceived uncertainty is viewed as a consequence to trust.

We argue that the two concepts present a mutual relationship and that this relationship should be studied with a dynamic approach. It is not clear yet whether uncertainty is an antecedent of trust or is a consequence of trust. An acceptable degree of uncertainty (non null) motivates consumers to build trust. Consequently, once consumers feel trust, their perception of uncertainty is affected : the degree of perceived uncertainty is lowered.

## **Risk and Trust**

Risk is one essential condition to motivate consumers to engage in a process of trust building (Coleman 1990 ; Kim, So et Lee 2007). Without a minimum of potential loss, there would be no need to build trust. Trust implies the willingness to become vulnerable to the actions of the other party (Mayer et al. 1995), on the basis of the expectation that the trading partner will not adopt an opportunist behaviour. The trustors take thus « the risk of losing something important to them and relying on the trustees not to exploit the vulnerability » (Wang et al 2005).

If a minimum risk is required for trust building, too much risk produces the opposite effect.

« The relation of trust and risk is reciprocal and complex » (Kim, So et Lee 2007). Previous research either presented risk as an antecedent of trust either as a consequence of trust (Gefen et al. 2003; Cheung and Lee 2006). Previous research has shown that trust reduces risk perceptions (Anderson and Weitz 1989 ; Ganesan 1994).

Online marketplaces lack the legal power of traditional marketplaces (Pavlou and Gefen 2004). Consequently, consumers are much more vulnerable during the online transactions than during traditional transactions. « Because of the high complexity and anonymity associated with ecommerce, merchants can behave in an unpredictable manner on the Internet » (Wang and Emurian 2005). Aware of this vulnerability and reluctant to take too much risk, consumers need to feel confident they will not be duped.

## **Defining Online Trust**

Online trust research is in the continuity of research on offline trust but there are some distinctions, specific to the online environment. First, we will present the conceptual framework of online trust on the basis of research that deal with offline trust. Secondly, we will highlight the distinct characteristics of online trust.

### **Offline Trust :**

Offline trust refers to the general and traditional approach of the concept of trust. The most cited definition considers trust as the « willingness to rely on an exchange partner in whom one has confidence » (Moorman, Deshpande and Zaltman 1993).

The interest for this concept is recent in economics and marketing disciplines. Researchers began to consider it as a potential factor for explaining consumers' behaviour in the second half of the eighties whereas it emerged in psychology in the fifties with the works of Deutsch (1958) and those of Rotter (1967).

The paradox is that the increasing number of researches dedicated to trust did not help clarifying the concept, instead it contributed to render the concept fuzzier. Yet, there is no consensus about how to define the concept, operationalize and measure it (Delerue and Berard 2007). This situation may be explained by three major reasons :

- Trust is a complex multi-faceted concept that consists on cognitive, emotional, and behavioral dimensions (Lewis & Weigert 1985).

- Trust is an « abstract concept » (Wang et al. 2005).
- The heterogeneity of methods and contexts. « Trust has been widely studied in many disciplines, but each discipline has its own understanding of the concept and different ways to operationalize it » (Wang et al. 2005). This is even observable between researches within a same discipline.

Although trust has been treated as a unitary concept in some studies, it is generally grasped as a multidimensional concept. Ganesan (1994) has a bi-dimensional approach. The author identified credibility and benevolence as the principal components of the concept of trust. Gurviez (1999) added integrity to the construct. Credibility relates to a person's perception of the truth of a piece of information. Benevolence refers to the intention of the vendor to act in the interest of the consumer, « putting to one side his egoistic profit motives » (Raimondo 2000). Integrity refers to keeping commitments, being honest and not cheating (McKnight, Choudhury and Kacmar 2002).

The only point that reaches unanimity is that trust plays an important role in social interactions. However, the conceptions of the specific roles played by trust differ among researchers. Trust appeared to be key significant driver affecting :

- development and stability of market shares (Urban, Sultan and Qualls 2000) ;
- cooperation (Anderson and Weitz 1989 ; Mayer et al. 1995) ;
- commitment (Geyskens, Steenkamp, and Kumar 1996 ; Frisou 2000, Chaudhuri and Holbrook 2001). In their meta-analysis, Geyskens, Steenkamp, and Kumar (1999) showed that trust explained about 28% of the variance in commitment.
- satisfaction (Aurier, Benavent and N'Goala 2001 ; Harris and Goode 2004),
- purchase intention and loyalty (Doney and Cannon 1997 ; Sirdeshmukh, Singh, and Sabol 2002 ; Harris and Goode 2004). According Reichheld and Scheffer (2000), « to gain the loyalty of customers, you must first gain their trust ».
- the probability of allocating resources in favour of the partner who is trusted (Anderson, Lodish and Weitz 1987 ; Doney & Cannon 1997).
- the power of persuasion of the vendor (Swan and Nolan 1985 ; Swan, Trawick and Silva 1985) ;

### **The Specificities of Online Trust :**

« Online trust refers to the trust in a Web site or the company that hosts the site. This trust could be enhanced through two complementary approaches: secured information technology and trusted business practices » (Lauer and Deng 2007). Pavlou (2003) defined online trust as the willingness to become vulnerable *vis a vis the* e-vendor. Jarvenpaa et Tractinsky (1999) defined online trust as the willingness to rely on the e-vendor and to act even if these actions produce vulnerability.

Online trust does not seem basically different from offline trust. The main differences identified by Hassanein and Head (2004) are :

- The absence of simultaneous exchanges between the consumer and the e-vendor
- The distance between the two partners in the online environment ; and the rules and regulations may vary across each zone.
- The facility of entry and exit for online businesses (« Is the company going to disappear overnight?»).
- The data control is quasi null during and after transfers in the online environment.
- The absence of physical trust cues in the online environment.

- The physical evaluation of products is difficult in an online setting. Consumers cannot personally inspect products or compare the quality, size, or style of products.
- Electronic transactions are generally impersonal, anonymous and automated.

## PROPOSED MODEL AND HYPOTHESES

Online trust has become a topic of increasing interest to consumer behaviourists and to marketers. Our central question is : How to reassure consumers that are reluctant to buy overseas ? It would be a waste to limit its market to national consumers whereas Internet allows to reach consumers wherever they are.

Previous research focused on the following types of antecedents to explain the level of trust in a web site : graphic design, structure design (its general organisation), content design (the textual or graphical information included in the web site), social-cue design (social presence). We propose to put our interest in one information that can be communicated in different way by the e-vendor : its origin. More precisely, the aim of this study is to demonstrate that perceived geographical proximity and perceived cultural proximity between the consumers and the e-vendor reassure them and that trust is a formidable substitute to legal governance. Because of the unclear and underdeveloped legal environment of e-commerce, consumers need to perceive reassuring signals from e-vendors.

We hypothesize that consumers are more reassured when the trading partner seems close to them, geographically and culturally.

Geographical proximity is often measured in kilometers (Grote et Raube 2007). It refers to the physical or spacial distance between two parties but it takes into account the fact that some geographic points are brought nearer thanks to infrastructure and transports. Moreover, the fact of belonging to a same region increase geographical proximity (eg. Europe, Indian Ocean).

Cultural proximity refers to sharing similarities in language, history, religion, ethnicity, living patterns and customs, values, beliefs, attitudes and clothing styles across groups of people. Moreover, cultural proximity has been identified with the existence of governmental and jurisdictional traditions (Felbermayr and Toubal 2006).

As noted Disdier and Mayer (2007), « proximity helps exchanges ». But how ? Our first thought is that it is easier to trade with partners that speak the same language, that share the same culture and values and that is not too far away to simplify the merchandise flows. It also reduces transaction costs.

But we stand that it is not the only effect : cultural and geographical proximities may favour trust emergence. « People tend to trust others who are similar to them and to distrust those who are dissimilar from them » (Earle and Cvetkovich 1999).

This paper raises these two main questions:

- Does cultural proximity between the e-vendor and the consumer favour trust in the e-vendor ?
- Does geographical proximity between the e-vendor and the consumer favour trust in the e-vendor ?

To better understand the logic of the relationships, we integrated intermediary variables which are trust in the e-vendor's national legal system, and degree of awareness of the legal



« cloisonnement » between one's own country and the e-vendor's country. We hypothesize that :

H1 : Higher the perceived cultural proximity between the e-vendor and the consumer is, higher the trust in the e-vendor's national legal system is.

H2 : Higher the perceived geographical proximity between the e-vendor and the consumer is, higher the trust in the e-vendor's national legal system is.

H3 : Higher the perceived cultural proximity between the e-vendor and the consumer is, *moins les consommateurs sont conscients du cloisonnement judiciaire entre les pays.*

H4 : Higher the perceived geographical proximity between the e-vendor and the consumer is, *moins les consommateurs sont conscients du cloisonnement judiciaire entre les pays.*

It is presumed that :

H5 : Higher the trust in the e-vendor's national legal system is, the less uncertainty about the outcomes consumers perceive.

H6 : Higher the trust in the e-vendor's national legal system is, the less risk consumers perceive.

H7 : *Moins les consommateurs sont conscients du cloisonnement judiciaire entre les pays,* the less risk consumers perceive.

H8 : *Moins les consommateurs sont conscients du cloisonnement judiciaire entre les pays,* the less uncertainty they perceive.

H9 : The less uncertainty about the outcomes consumers perceive, the less risk they perceive.

H10 : The less uncertainty about the outcomes consumers perceive, the more trust consumers feel.

H11 : The less risk about the outcomes consumers perceive, the more trust consumers feel.

And H12 : The more trust consumers feel, higher their intention to trade with the e-vendor is.

Figure 1 illustrates our respective research model :

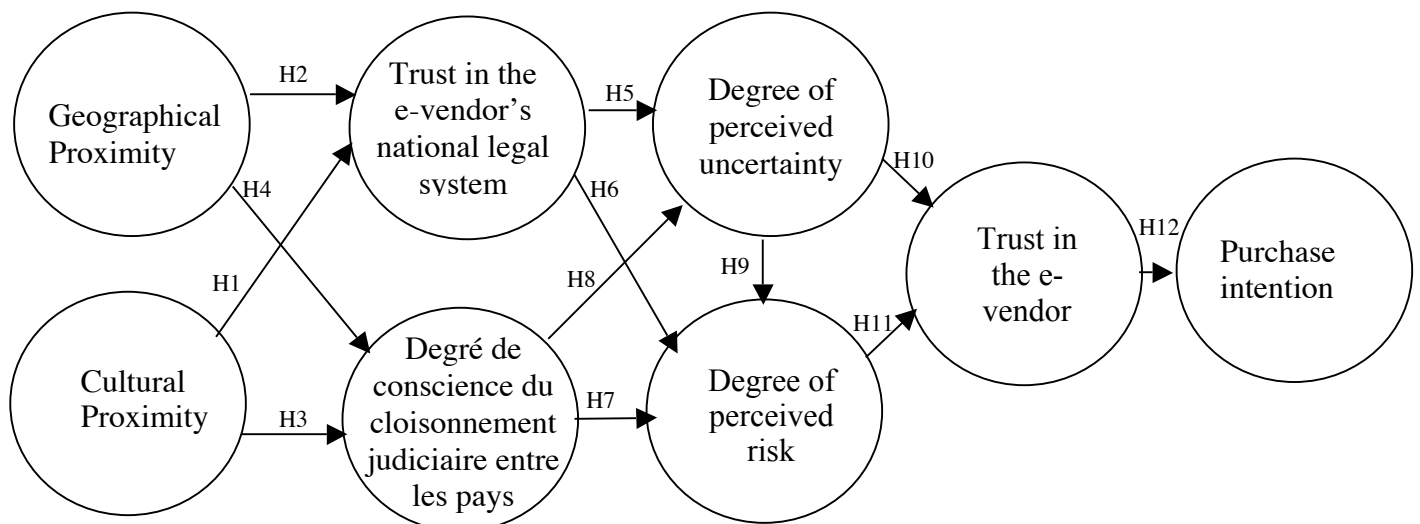


Figure 1 : The proposed model and hypotheses

## **RESEARCH METHODOLOGY**

### **Measurement Development**

Measurement items were adapted from the literature wherever possible. Due to an absence of existing scales, we based on the definitions of the concepts presented above to construct our own scales. For example, to measure the degree of perceived cultural proximity, the interviewees were asked to score the degree of difference they perceive between their own country and another one on the basis of language, religious beliefs, traditions and living habits. To measure the degree of geographical proximity, we asked how far a country was from the interviewee's one, how easy it was to travel to this country, how expensive it was to go to this country and if s/he thought that the country belongs to the same area that his/her own country. The scores could range from 1 to 7. The lowest scores meant that the perceived differences between the two countries were small and the highest scores that the perceived differences were big.

### **Survey Administration**

To achieve the objective of the present study and provide material for hypothesis testing, we conducted 135 interviews (convenient sampling). Most interviewees were students in the library of the university of Saint Denis Reunion.

Each interviewee was asked to evaluate the degrees of cultural and geographical proximities s/he feels between his/her own country and four other ones : Mauritius, Belgium, China and Mexico. They were also asked for each cited country their level of trust in its justice, their level of perceived partitionning with their own country, the levels of risk and uncertainty attributed to exchanges with a e-vendor from this country, the level of trust on a e-vendor from this country and the degree of dealing intention with a e-vendor from this country.

## **DATA ANALYSIS AND RESULTS**

### **Preliminary analysis**

The sum of the differences scored between their own country and each country highlights that the interviewees feel culturally closer to Mauritius (1,831), then Belgium (2,495), Mexico (3,590) and at the end China (4,030). Geographically, the interviewees feel closer to Mauritius (1,270), then Belgium (2,316), China (2,904) and Mexico (3,065). The geographical position of our study field (Reunion Island) explains these results : Mauritius is the closest island, the infrastructures are well developed between these two countries and they share a common History. China is perceived culturally different from the inhabitants of Reunion Island, but seems geographically closer thanks to direct air routes.

Before analysing the correlations between our variables, we first controlled their distribution. Skewness and Kurtosis tests were loaded. The results were satisfactory (see appendix 1 for more details).

Coefficient alphas for all constructs were above .70 (except Purchase Intention with .60) and all items loaded significantly on their assigned latent constructs.

### **Confirmatory Factor Analysis**

Subsequently, a structural equation analysis was conducted to assess causal effects between the variables. Thus, we computed Pearson correlations between all possible pairs among the 22 items and tested our model with Lisrel.

**Figure 2. The tested causal model**

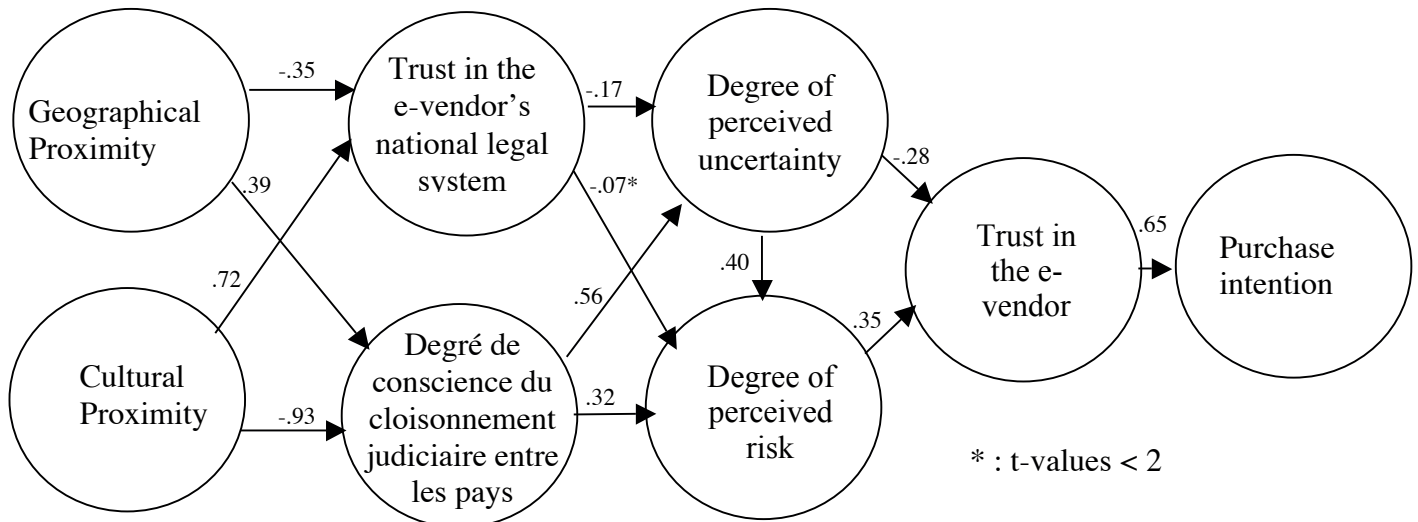


Table 1: Summary of the hypothesis tests

Hypotheses	Unstandardized structural coefficients	T-values
H1 : Cultural Proximity to Trust in the e-vendor's national legal system	.72	8.10
H2 : Geographical Proximity to Trust in the e-vendor's national legal system	-.35	-4.16
H3 : Cultural Proximity to Perception d'un cloisonnement judiciaire	-.93	-7.94
H4 : Geographical Proximity to Perception d'un cloisonnement judiciaire	.39	4.13
H5 : Trust in the e-vendor's national legal system to Uncertainty	-.17	-3.36
H6 : Trust in the e-vendor's national legal system to Risk	-.07	-1.54
H7 : Perception d'un cloisonnement judiciaire to Uncertainty	.56	7.78
H8 : Perception d'un cloisonnement judiciaire to Risk	.32	4.51
H9 : Uncertainty to Risk	.49	6.44
H10 : Uncertainty to Trust in the e-vendor	-.28	-3.70
H11 : Risk to Trust in the e-vendor	-.35	-4.55
H12 : Trust to Purchase Intention	.65	8.39

Chi2 for independance model was satisfactory with 196 ddl = 889.39 (P = 0.0). Divided by the degrees of freedom ratio, the chi-squared was 4.54. This value is acceptable as it is below the recommended level of 5 suggested by the Marsh and Hocevar (1985).

The obtained Root Mean Square Error fall within the acceptable standards (RMSEA = .08), indicating a good fit between the model and the data.

AGFI was higher than the threshold of 0.8 (Bentler 1990) (AGFI = .83). However, GFI and CFI were a little bit lower than the .90 recommended (GFI = .87 and CFI = .89). Since they were just a little bit lower, we stated that these results displayed a satisfactory model fit and decided to continue our analysis.

The results of the empirical test show only one coefficient which is not significantly different from zero. H6, which stated a relationship between Trust in the e-vendor's national legal system and Risk, is therefore rejected (t-value = -1.54).

For H2, the valence was the opposite of what had been supposed. We hypothesized a positive relationship between Geographical Proximity to Trust in the e-vendor's national legal system whereas it revealed to be negative. We observed the same results for H4 (relationship between Geographical Proximity to Perception d'un cloisonnement judiciaire). This highlights the fact that geographical proximity is not necessary synonymous of trust.

## DISCUSSION AND MANAGERIAL IMPLICATIONS

The main teachings this researching provides are :

- The existence of a strong negative relationship between cultural proximity and degré de conscience du cloisonnement judiciaire entre les pays.
- The existence of a strong positive relationship between cultural proximity and trust in the e-vendor's national legal system.

This means that consumers tend to think that e-vendors from similar cultures of theirs present a protection against the lack of international governance. If a problem occurred in the transaction, consumers tend to think that it would be easier to solve it and that the judgement would be more impartial.

- The existence of a weak positive relationship between geographical proximity and degré de conscience du cloisonnement judiciaire entre les pays.
- The existence of a weak negative relationship between geographical proximity and trust in the e-vendor's national legal system.

The valence for both coefficients was the opposite it had been hypothesized. This seems counterintuitive. This would mean that geographical proximity is not an argument that should be used by e-vendors for two reasons : first, its impact is weak and secondly it could be counterproductive. This finding deserves further investigation.

- The existence of moderate negative relationships between uncertainty and trust in the e-vendor and between the degree of perceived risk and trust in the e-vendor.

We expected stronger coefficients between these three concepts. Uncertainty and trust in the e-vendor share only 8% of common variance and risk and trust 12%. The negative coefficients confirm that uncertainty and risk may be prerequisites for trust existence (Lewis and Weigert 1985 ; Coleman 1990 ; Zazzali 2003 ; Kim, So et Lee 2007) but are not sufficient to explain the degree of trust.

According to our findings, clues maint to highlight the geographical proximity with consumers do not favour trust building in the site and in the e-vendor. It is not worth to insert them in the site. They will not have the expected effect.

Clues maint to highlight the cultural proximity with consumers do have a modest effect. Therefore, we recommend to site managers to adapt the form and the content of their messages to their different target groups (languages, photographs, arguments).

## CONCLUSION AND LIMITATIONS

The justification for this research arose from recognition that theoretical and empirical research into the construct of trust in online environments has been very limited. Research on the determinants and consequences of consumer trust in e-vendors remain insufficient to move closer to truly understanding e-consumers (Bramall, Schoefer and McKechnie 2004).

The research makes a contribution to the existing body of knowledge within ecommerce and trust literatures. Understanding what motivates consumers to adopt the electronic commerce is important because it is the key to online vendors' survival in this intensely competitive market (Hsu 2008). Over 4 in 5 users (80%) say that being able to trust a web site is very important for them in making a decision to interact with that site (Princeton Survey Research Associates 2002). As stated by Wang and Emurian (2005), « lack of trust has been repeatedly identified as one of the most formidable barriers to people for engaging in e-commerce [...]. The future of e-commerce is tenuous without a general climate of online trust. ». If the e-vendor does not inspire trust, consumers will not buy (Ang and Lee 2000).

High uncertainty and risk prevail on the online environment due to the absence of specific authorities, the absence of online rules and of legal jurisdiction. The role of trust is therefore important. Consumers, before engaging in a transaction, have to feel in trusting. They are receptive to all cues that reveal potential dangers and the trustworthiness of the e-vendor. We showed that the cultural proximity participates to trust building. We also demonstrated that geographical proximity was ineffective on trust.

This study is not free from limitations. The major ones are :

- the use of non validated scales to test the model ;
- the restricted research field (Reunion Island) that presents particularities due to its nature (an island) ;
- and the use of a convenient sample. Most of our interviewees were university students.

The findings of this experiment need to be replicated in other research fields and with other countries. Due to the fact that the obtained coefficients were not high, it would be interesting to integrate other variables inherent in consumers and to carry out typologies. It could be hypothesized that different behaviours would be observed. This could be explained by the fact that people do not have the same experiences with Internet and e-shopping.

It would be also interesting to typology according to the perceptions consumers have on the different countries that are studied (the level of economic development for example). This could generate variance that is not supported by our general model.

## APPENDIX

### APPENDIX 1 : Kurtosis and Skewness tests

#### Statistiques descriptives

	N	Minimum	Maximum	Asymétrie		Kurtosis	
	Statistique	Statistique	Statistique	Statistique	Erreur std	Statistique	Erreur std
VAR00002	540	1,00	7,00	,199	,105	-1,613	,210
VAR00003	540	1,00	7,00	-,134	,105	-1,266	,210
VAR00005	540	1,00	7,00	,107	,105	-1,195	,210
VAR00006	540	1,00	7,00	,495	,105	-1,440	,210
VAR00007	540	1,00	7,00	-,475	,105	-1,131	,210
VAR00009	540	1,00	7,00	,735	,105	-1,200	,210
VAR00010	540	1,00	7,00	,671	,105	-1,107	,210
VAR00011	540	1,00	7,00	,755	,105	-,964	,210
VAR00013	540	1,00	7,00	-,327	,105	-1,398	,210
VAR00014	540	1,00	7,00	-,241	,105	-1,449	,210
VAR00015	540	1,00	7,00	-,466	,105	-1,176	,210
VAR00016	540	1,00	7,00	-,483	,105	-1,327	,210
VAR00017	540	1,00	7,00	-,450	,105	-1,022	,210
VAR00018	540	1,00	7,00	-,230	,105	-1,281	,210
VAR00022	540	1,00	7,00	-,689	,105	-,712	,210
VAR00023	540	1,00	7,00	-,468	,105	-1,055	,210
VAR00025	540	1,00	7,00	,318	,105	-,818	,210
VAR00026	538	1,00	7,00	,217	,105	-,944	,210
VAR00027	538	1,00	7,00	,285	,105	-,804	,210
VAR00028	524	1,00	7,00	,156	,107	-,939	,213
VAR00029	540	1,00	7,00	,178	,105	-1,444	,210
VAR00030	540	1,00	7,00	,164	,105	-1,373	,210
N valide (listwise)	524						

### APPENDIX 2 : Covariance Matrix of Eta and Ksi

JTRUST	CLOSE	UNCERT	RISK	TRUST	PURCH	
-----						
JTRUST	1.00					
CLOSE	-0.38	1.00				
UNCERT	-0.38	0.63	1.00			
RISK	-0.38	0.65	0.71	1.00		
TRUST	0.24	-0.40	-0.53	-0.55	1.00	
PURCH	0.16	-0.26	-0.34	-0.36	0.65	1.00
CULTPROX	0.48	-0.66	-0.45	-0.46	0.29	0.19
GEOPROX	0.17	-0.27	-0.18	-0.19	0.12	0.08

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# **Building Trust with Geographical and Cultural Proximity**

**Magali DEBAT  
FACIREM**

## **PLAN**

- The context of our research
- The main purposes of our research
- Our hypotheses
- Our research methodology
- Our Findings
- Managerial & Theoretical implications of our findings
- Limitations of our findings

## The context of our research

- With more than 600 million users, Internet represents an enormous potential of B-to-C commerce.
- Because of the " ubiquitous nature of the Internet " (Lim 2003), vendors can sell their products to consumers worldwide.

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- However, consumers are generally reluctant to purchase products overseas (Lim 2003).
- For example, only 24% of the french Internet users feel no hesitation to purchase products from foreign vendors.

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- Online purchases have not reached “ a point of critical mass ” (Hassanein and Head 2004), mainly because of a lack of online consumer trust (Baldwin and Currie 2000; Head and Hassanein 2002).
  - This lack of trust is mainly due to the underdeveloped legal environment of electronic commerce (Head and Hassanein 2002).<sup>5</sup>

- 
- Too much uncertainty & risk in a transaction prevent consumers to feel confident and to purchase (Lim 2003; Qiu C. and Lee Y.H. 2008).

## The main purposes of our research

Recent events show the importance of our research :The attempt of abolition of the economic barriers existing between countries by G20 to construct an international governance.

- The new willing to homogenize the international budgetary, monetary and trading policies between countries.

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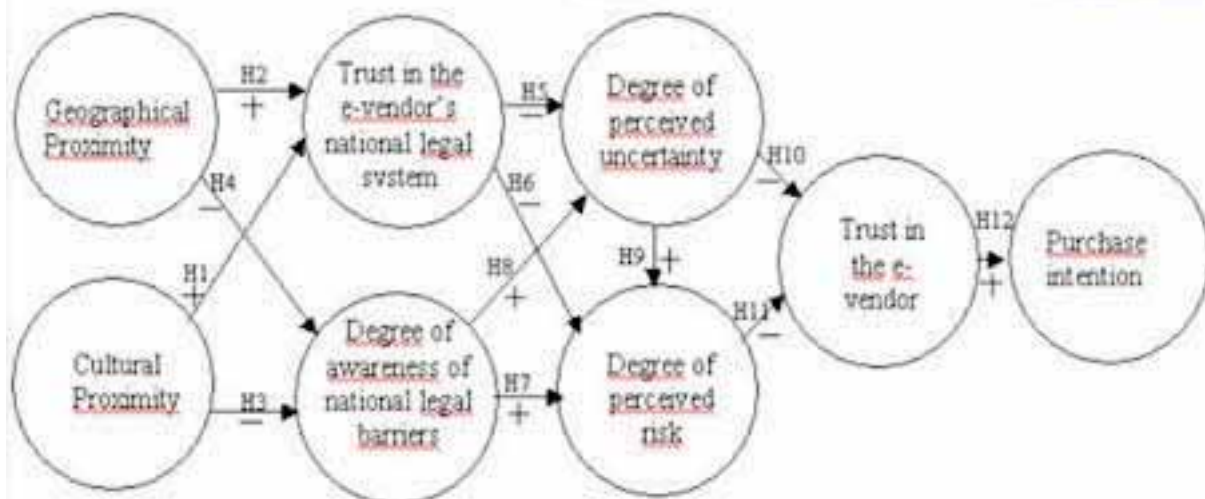
- This paper investigates the impact of vendors' origins on consumers' trust in the absence of governance of online transactions.
- More precisely, we investigate if the fact that e-vendors are perceived geographically & culturally closer to consumers favours trust building and purchase intention.

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- Are geographical proximity & cultural proximity substitute to international governance ?

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## Our hypotheses



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For a better understanding of the underlying mechanisms, we integrated intermediary variables between proximity & trust :

- Trust in the e-vendor's national legal system
- Degree of awareness of national legal barriers

We also hypothesized that :

- Proximity reduces indirectly uncertainty & risk perception

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## Our research methodology

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- **135 interviews** were conducted via questionnaires. Most interviewees were students in the library of the university of St Denis Reunion.
- Sampling technique : **convenient sampling** (a majority of students).
- Studied nationalities : Mauritius, Belgium, China & Mexico (high variance was expected).

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Each interviewee was asked to evaluate :

- the degrees of cultural and geographical proximities s/he feels between his/her own country and the four other ones.

+

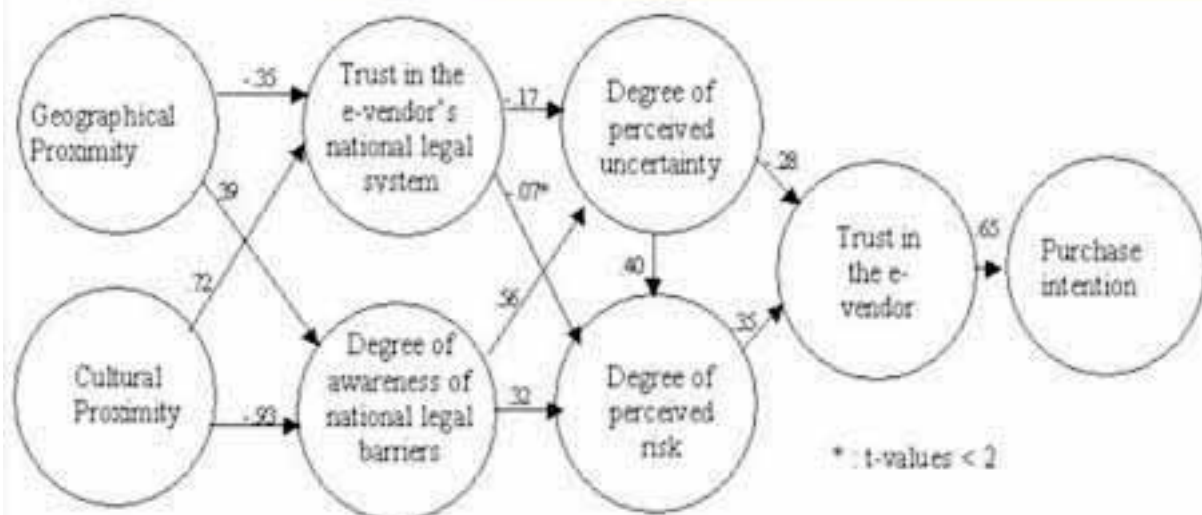
- the degrees of trust s/he feel for a e-vendor from each country.
- Her/his degrees of purchase intention in a site from each country.

+

- Questions related to our intermediary variables

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## Our findings with Lisrel



Chi2 with 196 ddl = 889.39 (P = 0.0) ; RMSEA = .08

AGFI = .83 ; GFI = .87 ; CFI = .89

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## **The main teachings this researching provides are (1):**

- The existence of a strong negative relationship between cultural proximity and perception of national legal barriers between the two countries.
- The existence of a strong positive relationship between cultural proximity and trust in the e-vendor's national legal system.

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## **Our interpretation**

- Consumers tend to think that e-vendors from similar cultures of theirs present a protection against the lack of international governance.
- If a problem occurred in the transaction, consumers tend to think that it would be easier to solve it and that the judgement would be more impartial.

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## **The main teachings this researching provides are (2):**

- The existence of a weak positive relationship between geographical proximity and perception of national legal barriers between the two countries.
- The existence of a weak negative relationship between geographical proximity and trust in the e-vendor's national legal system.

The valence for both coefficients was the opposite it had been hypothesized.

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## **The main teachings this researching provides are (3):**

- The existence of a positive relationship between cultural proximity and trust in the e-vendor.
- The existence of a weak negative relationship between geographical proximity and trust in the e-vendor.

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## Our interpretation

This would mean that geographical proximity is not an argument that should be used by e-vendors for two reasons :

- first, its impact is weak;
- secondly it could be counterproductive.

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## Managerial implications

- « Understanding what motivates consumers to adopt the electronic commerce is important because it is the key to online vendors' survival in this intensely competitive market » (Hsu 2008).
- It is not worth to insert clues meant to highlight the geographical proximity with consumers in the site. They will not have the expected effect.

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- Clues meant to highlight the cultural proximity with consumers do have a modest effect. Therefore, we recommend to site managers to **adapt the form and the content of their messages** to their different target groups (languages, photographs, arguments).

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## Theoretical implications

Our results confirm findings of previous research on the role of similarity between the consumer & the vendor as trust facilitator :

- Legal norms, rules and potential sanctions encourage trust (Wei, Liu & Yanchun 2008).
- When sharing values with the vendor, consumers tend to think s/he is more benevolent. So, it favours trust development (Doney & Cannon 1997).

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## Limitations of our findings

We acknowledge that a number of limitations exist in this study :

- | the use of non validated scales to test the model ;
- | the restricted research field (Reunion Island) that may present particularities due to its nature (an island) ;
- | and the use of a convenient sample. Most of our interviewees were university students.

## **Session 5: MODELLING**

***Chairman: Gérard Cliquet (IGR-IAE, University of Rennes 1, France)***

***. The unpredictability of financial crises in a globalised world: implications for public governance*** ***p. 246***

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Jacques-Marie Aurifeille (*FACIREM, Université de Polynésie Française*), Jaime Gil Lafuente (*FACIREM, Universidad de Barcelona, Spain*) and Christian Dave (*FACIREM, University of La Reunion*)

# ***THE UNPREDICTABILITY OF FINANCIAL CRISES IN A GLOBALISED WORLD: IMPLICATIONS FOR PUBLIC GOVERNANCE***

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## **ABSTRACT**

Globalisation process has not succeeded in eliminating international financial crises; quite the opposite, a number of authors argue that it has contributed to trigger them. The adoption of governance measures that surpass the national scope, reaching a transnational character, can contribute to avoid or to reduce these problems at least. But, in addition, globalisation seems to have accentuated the unpredictability of the crises, as it can be verified in the current one: it is a global crisis, and, what is more, despite the prior existence of warnings about several imbalances in financial markets and in the global economy, neither supervisors nor the multilateral organisms knew to predict the exact form that it would take, the timing of its onset and the nature of its consequences.

However, this lack of foresight does not seem to be an inherent feature of the current crisis, but rather a common factor to external financial crises in the globalisation era, in so far as most of them were not head off. And it happens despite the existence of large variety of methods to assess country risk and, therefore, to measure the risk of taking place a crises episode, particularly the so-called “country risk indexes”.

The aim of this chapter is to contrast whether the two index most known and used by experts, the *Euromoney* index and the *ICRG*, were capable to predict well in advance the crisis episodes occurred during the period 1994-2002. For this purpose, we consider a sample that includes 13 countries in crisis and 50 countries which, even belonging to the same “country risk group” as the first, did not develop a crisis. On the basis of this sample, both discriminant and *logit* analysis are performed in order to check the success of both index in discriminating between the two groups. The results indicate that neither of selected indexes was suitable for carrying out this objective.

These results suggest two conclusions: the first is that country risk indexes, although are able to reflect a certain set of economic vulnerabilities, do not appear to identify last combination of factors which trigger a crisis; the second one is that in a globalised world the governance models must reject the approaches based on the easy predictability of economic events, assuming on the contrary the relevance of the uncertainty in the analysis and the management of the economic reality.



## **INTRODUCTION**

The current crisis has renewed the interest on the impact of globalisation process in the outbreak of international financial crisis. Moreover, a number of authors argue that this process has not succeeded in its purpose of preventing not only the crisis but also vulnerabilities such as volatility or distortions in economic fundamentals; quite the opposite, it seems contributed to trigger them.

In addition, globalisation seems to have accentuated the unpredictability of the crises, as it can also be verified in the current one. Despite the prior existence of warnings about several imbalances in financial markets and in the global economy, neither supervisors nor the multilateral organisms knew to predict the exact form that it would take, the timing of its onset and the nature of its consequences.

Therefore, if globalisation process involves more global concerns, such as the increasing both volatility and unpredictability or the current crises, it seems necessary a mayor international cooperation and more global strategies to cope with them. Because the adoption of governance measures that surpass the national scope, reaching a transnational character, can contribute to avoid or to reduce these problems at least.

The aim of this chapter is to contrast whether the two index most known and used by experts, the *Euromoney* index and the *ICRG*, were capable to predict well in advance the crisis episodes occurred during the period 1994-2002. For this purpose, we consider a sample that includes 13 countries in crisis and 50 countries which, even belonging to the same “country risk group” as the first, did not develop a crisis. On the basis of this sample, both discriminant and *logit* analysis are performed in order to check the success of both index in discriminating between the two groups. In fact, whether the indexes are not able discriminating between countries where triggered a crisis episode and countries without crisis, would be confirmed the guesswork on their little ability to forecast and to anticipation external crisis.

Finally, if this supposition is revealed right, should be analyzed its consequences for the public governance through the formulation of a new model which would reflected this issue.

To this end, this paper is organized as follow. The second section discusses two of the consequences negative of the globalization process: volatility and the increasing uncertainty in economic events; and how they affect to the triggering of financial crisis. The third section raises some structural changes in the public governance model that are needed to mitigate or prevent these issues. The fourth section describes the country risk indexes that will be used to contrast the hypotheses raised in this chapter. These hypotheses, together with the data, the methodology used to contrast them and the results are shown in the fifth section. The conclusions are pointed out at the sixth section, and finally, references are collected at the seventh section.

## **GLOBALISATION, VOLATILITY AND UNPREDICTABILITY**

Globalisation is a complex and broad concept. It is usually related to goods, services, financial products, information and cultures which are more mobile al around the world (IMF, 2002). With regards to economic globalisation, it is the increasing integration and interconnection between the economies, particularly through the movement of goods, services and capital across borders, that encourages several economic agents to employ more efficiently their resources, outside the national field, thus causing a growing economic interdependence between the different countries (Urionabarrenetxea, 2006 p. 18; De la Dehesa, 2008; Rodríguez *et al.*, 2008). Although the economic globalisation basically covers

the globalisation of three types of markets: the financial capital, the productive capital, and the goods, in this work we will focus on the first, since bearing directly on the risk country.

This process, like any other, has many aspects from which we can zoom but, undoubtedly, the issue that more comments raised is the growing number of adverse consequences that it causes. Among other, we can highlight (Bustelo *et al.*, 1999; Pedrosa, 2004): the speculative pressures, rising in systemic risk, and the increased vulnerability of emerging countries. But what really concerns all the market participants is the increasing volatility and unpredictability.

Despite the fact that there is no a clear consensus about the relation between globalisation of financial market and the evolution of volatility, the global strand of thought states that the first exacerbates intrinsic distortion of financial markets which lead to an increase in the second (Hermaling and Rose, 1999). From this point of view, there are three channels through which these distortions are enhanced: 1) the lack of information derives from the existence of asymmetric information, which leads to two mayor problem: adverse selection and moral hazard<sup>77</sup>; 2) the use of derivatives, that widens the cross-borders capital flows and, therefore, the volatility; and 3) the role played by institutional investors, in the sense that this type of financial agents tend to trade large volumes of capital and have greater information, so that, they may contribute to encourage inequalities and, finally, volatility<sup>78</sup>.

Another fundamental problem, closely connected to this issue, is the premature capital market liberalization without an earlier upgrading of financial supervision, above all, in the emerging economies (Goldstein, 2005). This inadequate and premature financial liberalization has been shown to be incapable of decreasing volatility, and what is more, it seems to be a factor associated with credit booms as well as leading indicator of financial crisis (Reinhart and Rogoff, 2008).

The second adverse consequence of the globalisation process, stressed in this chapter, is the unpredictability of the events. The best example to explain this link is the current crisis: the first major financial crisis of the 21<sup>st</sup> century originated in 2007 and which has developed into an unprecedented fact, battering financial and real markets. In an overall view of the situation, there are a number of reasons why this crisis is notable; for example, its severity and speed, as well as the fact that almost all the industrialized countries have been affected (Rose and Spiegel, 2009). Attempts to identify a single cause of the crisis are misplaced, but a number of experts point out that at the root of the episode lays a fundamental inconsistency between financial globalisation and existing public rules and policies both in the domestic and international level (EEAG Report, 2009). In this sense, De la Dehesa (2009) also argues that there are two main driving forces behind the trigger of the crisis: on the one hand, the macroeconomics causes, with regards to the growing accumulation of current account imbalances in the world and the policy for maintaining low level of interest rates; and on the other hand, the “micro” causes, such a failures both in the system of incentives in financial entities and in the measurement of the country risk.

In short, the current crisis is the result of complex interactions between a range of factors. Next are set out most mentioned in the theoretical literature. First, should be considerer the macroeconomic context prior to the crisis, which was characterized by a long period of robust global growth and low interest rates. This global expansion, the so-called *Great Moderation* or *Great Stability*<sup>79</sup>, led to the relaxation of the monetary policy, creating

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<sup>77</sup> This concepts are widely explained in Gutierrez (2001), Mishkin (2005), De la Dehesa (2009)

<sup>78</sup> Actually, there is no academic consensus on whether the role played by institutional investors increases volatility or not (Sias, 1996).

<sup>79</sup> The *Great Moderation* or *Great Stability* are terms used to describe the combination of low inflation and reduced volatility experienced un the UK, US and a number of the other major economies from the late 1980s onwards. For the latest ideas about this issue see, for example, Watson (2002) and Young (2008). Besley and Hennssy (2009), for example, use another similar concept to define this situation: the *feel-good* factor.

extremely attractive credit conditions<sup>80</sup>, promoting the huge run-up in house prices (De Long, 2009) and encouraging financial markets and investors to downplay macroeconomic risk (Haldane, 2009). Under this framework, the second and third factors consist of excessive risk taking and excessive leverage by financial institutions, contributing to the concentration of systemic risk in the financial system and, specially, in housing market (FMI, 2009). Every discussion of the causes of the global financial crisis also includes: the level of opacity regarding the size and incidence of risk; the run-up in real estate values and the subsequent bubble and the boom in *subprime* US mortgage market (Feldstein, 2009); the previous mentioned information asymmetries; and a total market failure due to widespread supervisory shortcoming<sup>81</sup>.

But, leaving aside the causes, what really raises our interest, and the concern of most expert, is why the crisis was not head off. That is, “to look past blame in the crisis, it is useful to ask why financial institutions, supervisors, multilateral organisms, and policymakers failed to heed the looming threat” (FMI, 2009). In spite of the several alarms, nobody has foreseen the form that the crisis would take, its ferocity, its location, and the timing of its onset. It is argued that a key failure was the inability to understand the risk as a whole. Policymakers only focused on their own threat, overlooking the larger problem.

However, this lack of foresight does not seem to be current market distortion, but rather a common factor to financial system in the globalisation era, for example, in the sense that neither previous episodes of external crisis were provided for in advance. And it happened in spite of the existence of large variety of methods to assess country risk and, therefore, to measure the risk of taking place a crisis episode: the so-called *Early Warning Systems (EWS)*<sup>82</sup>, credit risk *rating* and country risk index, among others.

Consequently, there are many experts that cast doubt on the ability of existing methods for anticipate monetary and financial crisis (Radelet and Sachs 1998; IMF, 1999 and 2009; Goldstein *et al.*, 2000; Oetzel *et al.*, 2000; Reinhart, 2002; Amadou, 2003; Gorfinkiel and Lapitz, 2003; Medina, 2004; and Di Gregorio, 2005); and calling for the creation of new techniques more efficient and objective.

In this chapter, giving continuity to this dilemma, is intended to contrast if two country risk indicators most known and used, such as mixed type country risk index published by *Euromoney* and by *PRS Group (ICRG index)*, are able to discriminate between countries with crisis and without crisis and, ultimately, if their ratings adequately reflect the degree of risk in the different countries.

### ***THE NEED FOR A NEW GOVERNANCE MODEL***

If globalisation process involves more global concerns, such as the increasing both volatility and unpredictability or the current crises, it seems necessary a mayor international cooperation and more global strategies (across a range of economic and financial issues) to cope with them. Because the adoption of governance measures that surpass the national scope, reaching a transnational character, can contribute to avoid or to reduce these problems at least. Of course, this means that more global public policies should be implemented; and

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<sup>80</sup> About bank lending behaviour, its pro-cyclical and its regulatory frameworks see, among others: De Gregorio (2009), Brunnermeier (2009) and Demirguc-Kunt and Servén (2009).

<sup>81</sup> Kane (2009) muestra que el problema financiero global se ha debido a un doble fallo. Por un lado, un fallo de mercado que ha mostrado una elevada falta de autodisciplina, y por otro, un error de supervisión que ha dejado que dicho fallo de mercado ocurriese.

<sup>82</sup> Although, for the time being, the use of the *EWS* from international financial institutions as forecast systems of crisis is limited, many authors advocate its use arguing that seem to be more effective than the traditional methods. Among others, we can find Kamin *et al.* (2001), Reinhart (2002), Edison (2003), Kaminsky (2003), Lestano *et al.* (2003), Manasse *et al.* (2003), Berg *et al.* (2004), King and Daniel (2004), Jacobs *et al.* (2005), Davis and Karim (2008), and Van Rijckeghem and Weder (2009).

this will require, at the same time, to involve all mayor players in global economic governance. Even is posed reinforce the importance of international organizations<sup>83</sup>, such as *World Trade Organization*, *International Monetary Fund*, or the *World Bank*.

What is clear, and there is broad consensus on it, is the need of reform global finance architecture and the public governance model (Stiglitz, 2007; Girón and Chapoy, 2009; Hume, 2009; Krugman, 2009). Concretely, the new governance model regarding to the financial systems, has to achieve these structural changes, among others (FMI, 2009):

- Coordinate monetary and fiscal policies globally. So far, monetary policy has focused basically in maintaining price stability (inflation targeting), and in the light of the circumstances recently triggered, this seems to be insufficient to avoid and prevent bubbles and the crisis that follow. So the mandate of monetary policy should be shifted towards a more complex set of objectives that included macro-financial stability and the prevention on systemic risk (Leijonhuvud, 2009)<sup>84</sup>. Meanwhile, most analysts suggest that the fiscal policy should be stronger in times of prosperity, and highlight the need to build up buffers and to avoid tax systems encouraging the build up of leverage (Claessens, 2009).
- Set a greater degree of cooperation between financial regulators in different countries to operate such a system, and expand the regulatory perimeter. These measures mean strengthening the system of *macro-prudential* regulation, which seeks to address the vulnerability of the financial system as a whole, rather than focussing on specific institution (Guttman, 2008; Hume, 2009; The Turner Review, 2009). In fact, the great majority of experts plead for the establishment of a global finance regulator, reiterating the inconsistency between the capital market without borders and national monitoring and regulation (Soros, 2008). Despite that this new regulation framework is still being developed, it is clear that it will have to contain three key elements (OECD, 2009): 1) procedures to ensure the flow of information between monetary authorities and supervisors; 2) effective early warning mechanisms, since the future will remain uncertain; and 3) effective supervisory action to control them.
- Finally, the new governance model should improve and extend the surveillance of the financial system. The aforementioned unpredictability in events has increased the difficulty of measuring and predict the risks associated with participation of different actors on the international market, from companies multinational until the individual investor (Hoti, 2005; San Martín and Rodríguez, 2009), revealing as principal concern among both the economic and financial community (Zopounidis *et al.*, 1998; Oetzel *et al.*, 2000; Hoti and McAleer, 2004 and 2005).

## **COUNTRY RISK INDEXES**

Generally, country risk index are used to "sort" countries according to their more or less level in risk. Often consist of the sum, with subjective weighting, of values of a certain variables for a reference period (Bascomb, 1993; Gorfinkiel and Lapitz, 2003). There are three kinds of indexes, depending on the type of variable used to processing it, although most of the agencies produces mixed index, including both observational and opinion variables: *Euromoney*, *Business Environment Risk Intelligence*, *Economist Intelligence Unit*, *Political Risk Services: International Country Risk Guide (ICRG)* y *IBC index*, *EFIC's Country Risk*, and *Japanese Centre for International Finance*, among others.

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<sup>83</sup> Nevertheless, this evolution raises a problem of loss of *Sovereignty*, viewed as the exclusive authority of a nation-State to manage itself.

<sup>84</sup> However, other authors point out that while monetary policy seems appropriate for many countries individually, at the global level it is too loose (Hume, 2009).

One reason for using the information from both *Euromoney* index and *ICRG* is that they are the most well known and used in international financial circles. Another reason is that some of the variables included are, to a great extent, the result of a prior synthesis of other methods, such as the risk *rating* awarded by the main international agencies. In addition, the fact that they have been published for a large group of countries over a period sufficiently long facilitates the application of certain statistical techniques on their results (Ramacharran, 1999; Ayala *et al.*, 2000; Iturralde *et al.*, 2006).

The method to develop the *Euromoney* index is to get, for each reference period (six months), the weighted sum of variables included therein. Originally, they take values between zero and ten, but before introducing them into the index applying his respective weighting, such values must be normalized by dividing the value of each one in the index of the country in question by its corresponding weight in the index. Currently, the index consists of nine variables grouped in three categories of indicators (Ayala *et al.*, 2000 and 2002; Gorfinkiel and Lapitz, 2003; *Euromoney* risk report in [www.euromoney.com](http://www.euromoney.com)): analytical indicator, which contains two opinion-based variables; external debt indicators; and market indicators (both include only observational variables<sup>85</sup>). Figure 1 shows these variables and the respective weightings, subjectively established by the experts who draw up the index at the present time.

Figure 1. Components of the *Euromoney* index

Components	Weighting (%)
<b>Analytical indicators</b>	<b>50</b>
• Economic performance	25
• Political risk	25
<b>External debt indicators</b>	<b>30</b>
• Synthetic indicator	10
• Unpaid or renegotiated debt	10
• <i>Credit rating</i>	10
<b>Market indicators</b>	<b>20</b>
• Access to bank lending	5
• Access to short-term finance	5
• Access to International bond	5
• Discount on <i>forfeiting</i>	5

Source: own preparation based on *Euromoney* semester country risk report (*Euromoney*, 2009)

Regarding to *International Country Risk Guide (ICRG)*, it is published, monthly since 1980, by the *Political Risk Services (PRS)* company. The *ICRG* is made under the assumption that the risk country consists of two fundamental factors: the ability of a country to service its debt and the goodwill or predisposition to pay it. Ultimately, the greater the score of a country, the lower its risk.

<sup>85</sup> “Observational” variable means that it can be obtained from statistical information published by relevant institutions.

Figure 2. Components of the *ICRG* index

Variables	Punctuation	% in ind. index	% in composite
<b>Political risk</b>	<b>100</b>	<b>100</b>	<b>50</b>
Government stability	12	12	6
Socioeconomic conditions	12	12	6
Investment profile	12	12	6
Internal conflict	12	12	6
External conflict	12	12	6
Corruption	6	6	3
Military in politics	6	6	3
Religious tensions	6	6	3
Law and order	6	6	3
Ethnic tensions	6	6	3
Democratic accountability	6	6	3
Bureaucracy quality	4	4	2
<b>Economic risk</b>	<b>50</b>	<b>100</b>	<b>25</b>
GDP per head	5	10	2,5
Real GDP growth	10	20	5
Annual inflation rate	10	20	5
Budget balance as a % of GDP	10	20	5
Current account as a % of GDP	15	30	7,5
<b>Financial Risk</b>	<b>50</b>	<b>100</b>	<b>25</b>
Foreign debt as a % of PIB	10	20	5
Foreign debt service as a % of export. and services	10	20	5
Current account as a % of export. and services	15	30	7,5
Net international liquidity as months of import cover	5	10	2,5
Exchange rate stability	10	20	5

To reflect both components of risk, this guide contains 22 variables divided into three categories of risk: political, financial and economic; and on this basis, publishes an individual index for each of them, as well as a composite index that includes all three previous subcategories (figure 2). Accordingly, the *Political risk* index consists of 12 subjective variables set by a group of analysts that collect both political and social factors. In addition, the *Economic risk* index has as its main purpose indicated the degree of strength or weakness of the economy. And finally, the *Financial risk* index reflects the ability of a country to finance their debt. Both the economic subindex as the financial subindex, contain five objective variables of quantifiable data.

## **EMPIRICAL ANALYSIS**

### **Hypothesis**

According to the above, distinguish regard to each index, there are two hypotheses:  
*H<sub>1</sub>: the Euromoney index, and its respective retards, has capacity for discriminate in advance between countries with crisis and countries without crisis.*

*H<sub>2</sub>: the ICRG index, and its respective retards, has ability to discriminate in advance between countries with crisis and countries without crisis.*

Obviously the null hypothesis is that the indexes are incapable discriminating in advance, i.e. through their retards values they do not distinguish between countries that have suffered an episode of crisis and countries without crisis. With this in mind, after the empirical analysis is complete, results will show two possibilities: 1) If, in fact, the indexes

discriminate between countries with crisis and without crisis, in the selected temporary period, would not questioned its ability to provide for economic vulnerabilities and, therefore, to anticipate episodes of crisis; 2) On the contrary, if they are not able to discriminate between countries that triggered a crisis episode and countries without crisis, would be corroborated guesswork on their little ability to forecast, and could be concluded that do not anticipate economic vulnerabilities that triggered episodes of crisis

To perform the contrast has been stipulated to apply both discriminant analysis and logistic regression for each of indexes. In particular, to obtain the discriminant function it has selected *stepwise* algorithm method<sup>86</sup>, which includes independent variables within the function, one by one, depending to its discriminatory capacity. The criterion for the selection of variables is the *Wilk's Lambda* and it is used as both enter and exit criterion the significance of the *F* statistical<sup>87</sup>

Now, the discriminant analysis is based on strict assumptions (multivariate normality, homocedastic covariance, absence of collinearity, among others<sup>88</sup>) that in our case are not verified. Although there is conflicting evidence on the sensitivity of the discriminant analysis to non-compliance of these assumptions<sup>89</sup>, non-satisfaction can cause slow guarantees on the validity of the results. Here, to check the correctness of reached conclusions it is going to perform a *logit* analysis, on the same sample, since this does not require compliance with to severe assumptions. To model the function and contrast its significance is selected *Wald* test, distributed as a  $\chi^2$  with *q* degrees of freedom (Uriel and Aldás, 2005). The function will be built from of the *forward* method, which determines which variables are really significant and includes only those<sup>90</sup>.

## **Data**

The sample used in this chapter includes two groups: on the one hand, 13 countries which develop an external crisis during the selected period that is, between 1994 and 2002 (Riley *et al.*, 2004); and on the other hand, 50 countries which, in spite of belonging to the same “country risk group” as the first, had not suffer an episode of crisis. We have, therefore, 63 countries and they are all evaluated by *Euromoney* and *ICRG* index<sup>91</sup>.

While the possibility of classifying countries into “risk groups” is a supposition commonly used in the literature on country risk measurement (Rodríguez *et al.*, 1996, 2003, 2004 and 2006; Ayala 1998; Ayala *et al.*, 2000 and 2002; Doumpos and Zopounidis, 2001; De Smet and Montano, 2004; Yim and Mitchell, 2005) nor the *Euromoney* index nor the *ICRG*, offer explicitly groups of countries with similar characteristics. For solve this problem, has been used results of a *cluster* analysis made by Rodríguez *et al.* (2006), in which countries

<sup>86</sup> *Stepwise* method and the entire process can consult, inter alia, in Ferrán (2001).

<sup>87</sup> Established critical levels: at least 0.1 to entry and a maximum of 0.15 to exit.

<sup>88</sup> Among other authors, Andrews *et al* (1973), Stevens (1986) and Krzanowski (1990) argue that verification of multivariate normality has certain difficulties. In practice, choose to verify univariate normality of each variable and, if met, take as normal the multivariate distribution (Bisquerra, 1989). The meant of homogeneity between arrays of variance-covariance for the population which were extracted groups usually checked by the test *Box M*. From a practical point of view, the homocedastic assumption is very severe and rarely meeting (Stevens, 1986; Lachenbruch, 1975).

<sup>89</sup> See, among others, Wahl y Kronmal (1977) and Hair *et al.* (1999).

<sup>90</sup> Also it could be model with *Likelihood Ratio (LR)* test. Since the results with both test is identical, it has selected the *Wald* statistical for being the most widely used in the empirical literature. With regard to the method of construction, there are no significant differences between the results obtained with the *forward* and *backward* method (Silva, 1994; Kleinbaum *et al.*, 1998).

<sup>91</sup> Specifically, the initial proposal was awarded, to each country with crisis, two cases without crisis that belong to the same group of risk of *Euromoney* index and two of the *ICRG*. However, as the size of the *Euromoney* index risk groups not allowed to make this selection, for not unbalance the sample is decided to delete a country without crisis also to *ICRG*. Finally, we have 13 countries without crisis + 13 x 2 (*ICRG*) + 13 x 2 (*Euromoney*) = 65 countries - 2 (1 *Euromoney* + 1 *ICRG*) = 63 countries in the sample.

are classified in homogeneous risk groups according to assessments issued by the *Euromoney* index. In *ICRG*, "risk groups" are obtained in a preliminary work performed by the authors.

The independent variables are:

- The value of the index in the "t" moment regarding to each country (*index\_t*): the "t" moment shall be fixed when a country declare the suspension of payments or moratorium of its external debt, or if these circumstances do not take place, when the debt is renegotiated, with serious imbalances in the banking system (banking crises), liquidity crisis or with a more devaluation than 15 % of the local currency.
- The value of the index with one and two retards with regard to the "t" moment (i.e. the value "t-1" and "t-2": *index\_t-1* and *index\_t-2*): considering that the available data is biannual and we are trying to contrast rates capacity for anticipate an episode of crisis in medium term, we choose to include two variables to collect data from both retards.
- The difference between them (*index\_t\_t-1* and *index\_t-1\_t-2*): Apart from the value at a concrete data, two variables are included to capture variations in each one of the indexes, even if they are minimal.

The dependent variable takes a value of 1 in the case of countries in crisis, and a value of 0 for cases without crisis.

With these data, the following figure collect the final sample of cases that are used in both discriminant and *logit* analysis.

Figure 3. Final list of countries with crisis and without crisis.

Countries with crisis			Countries without crisis			
Country	Set off data	"t" moment	Same group in the ICRG		Same group in de Euromoney	
Mexico	December 1993	Dec. 1993	Cameroon	Algeria	Nicaragua	Bulgaria
Venezuela	June 1994	Mar. 1994	Syria	Zambia	Vietnam	Peru
Rumania	In the mid 1996	Mar. 1996	Bolivia	Guyana	Papua	Paraguay
Thailand	July 1997	Mar. 1997	Trinidad & Tobago	Israel	Filipinas	Poland
Malaysia	July 1997	Mar. 1997	Libya	Kenya	India	Sudan
Indonesia	August 1997	Mar. 1997	Iran	Honduras	Czech Rep.	Egypt
South Korea	November 1997	Sep. 1997	Saudi Arabia	Jamaica	Greece	Hungry
Russia	August 1998	Mar. 1998	Dem. Rep. Congo	Angola	Gambia	Morocco
Brazil	January 1999	Sep. 1998	Oman	Malta	Colombia	Panama
Ecuador	August 1999	Mar. 1999	Gabon	Nigeria	El Salvador	Ethiopia
Turkey	November 2000	Sep. 2000	Latvia	Lithuania	Slovakia	South Africa
Argentina	December 2001	Sep. 2001	Croatia	Estonia	Chile	China
Uruguay	July 2002	Mar. 2002	Zimbabwe		Tunisia	

To contrast the hypothesis mentioned above, that is, to check the success of both index in discriminating between the two established groups, a discriminant and *logit* analysis are performed, first on the *Euromoney* index and then on the *ICRG*.

### ***Euromoney***

#### ***Discriminant analysis***

After running a significance test through *Wilk's lambda*, it is found that only the variable mean value of *index\_t-2* shows statistically significant differences for each groups



(sig. = 0.018). On the other hand, according to *Box M* test it is accept the null hypothesis of equality of covariance matrix (sig. = 0.931).

Taking note these preliminary results has built the discriminant function, getting the following result<sup>92</sup>:

$$D = - 2,816 + 0,058 \text{ index}_{t-2}$$

As expected because of the results of the significance test, the only variable that has been included in the discriminant function is *index\_t-2*. Thus, according to the model, the variable to help differentiate between countries with crisis and without crisis is the value that takes the *Euromoney* index with two retards<sup>93</sup> with regard to the approximate start-moment of each episodes of crisis. In fact, this variable has the higher discriminant charge, as well as the higher standardized coefficient (with a value equal to the unit for both cases)

Likewise, the figure 4 shows the eigen value of the variable in the function, the structure correlation, the *Wilks Lambda*, and its associated significance. As is clear from the low value of the canonical correlation, the function does not respond successfully with regard to discriminate between formed groups. In this same way, the *Wilk's lambda* statistical is close to the unit, so it could be possible that two groups not differ clearly. Even so, this statistical (transformed into the *Bartlett's* Chi-square value) is significant, so we can reject the null hypothesis that means values perform the same in the two groups established for the random variable.

Figure 4. Discriminant function: Eigen value, canonical correlation and *Wilk's Lambda*

Function	Eigen value	Canonical correlation	<i>Wilks' Lambda</i>	Chi-square	gl	Sig.
1	0,097	0,298	0,911	5,610	1	0,018

Bearing in mind that in the sample the groups are different sizes (out of 63 countries, 13 belong to group 1, and 50 to group 0), in accordance with the proportional randomness criterion (Hair *et al.*, 1998), the percentage of correct random classifications is 62.24%. However, for the analysis sample, the effectiveness indicator of the discriminant function takes a value of 82.5%. Thus, the increase over the total correct classification that can be expect from the criterion of randomness is of 15.26%; less than 25 % at least to give by acceptable the effectiveness of model<sup>94</sup>.

Arrived at this point, it seems that the hypothesis about the capacity of the *Euromoney* index, and its retards, to discriminate between established whole countries, (with crisis and without crisis) is rejected.

Now well, the not strict observation of some assumptions of this technique could negatively influence the goodness of the results. Therefore, for contrasting definitely raised hypothesis, then it is performed a *logit* analysis on the same sample.

### Logit

First, it is checked the goodness-of-fit of the model using the statistics which shows figure 5.

<sup>92</sup> The sample of cases is normally divided randomly in two groups: a sample analysis and validation sample. However, in this case and due to the total number of observations, it could be impossible to obtain validation sample, since to do so the sample analysis did not provide conclusive results.

<sup>93</sup> Remember that each retard equals one semester. Therefore, the value with two retards corresponds to the data issued by the index 12 months before the moment "t", not of the outbreak of the crisis (in which case it would be as maximum one and a half year).

<sup>94</sup> Moreover, the classification error is exclusively in countries with crisis: from 13 cases included in the analysis, only two are forecasted correctly.

Figure 5. -2 Log Likelihood, Cox & Snell R<sup>2</sup> and Nagelkerke R<sup>2</sup>

Step	-2 Log Likelihood	Cox & Snell R <sup>2</sup>	Nagelkerke R <sup>2</sup>
1	58,427	0,087	0,136

Both the results contained in the previous figure and the *Hosmer-Lemeshow* (0.64) test associated significance, indicate that the quality of global fit is appropriate. Therefore, it is performed the logistic regression through *forward stepwise* method (*Wald* test), and it stops at the first step, showing the following model:

$$\text{Crisis probability} = \frac{e^{-3,656+0,044 \text{ index}_t-2}}{1 + e^{-3,656+0,044 \text{ index}_t-2}}$$

Figure 6 shows for the variable included in the model (*index\_t-2*), its estimated coefficient ( $\beta$ ), the standard error of  $\beta$  (S.E.), *Wald* test value, the degrees of freedom (g), the significance level (sig.), and finally, the odds ratio (Exp ( $\beta$ )). Similar to the discriminant function, the *logit* model includes a single variable: the value of the index with two periods of retard. According to the value of the *Wald* statistic, the variable is significant (individually) in establishing differences between groups of the sample. However, its sign is not consistent. With  $\beta$  positive and  $\beta > 1$ , an increase in *index\_t-2* implies a greater probability of belong to Group 1, that is, as in the case of the discriminant analysis, to the group of countries with crisis. This has no sense, because a large value of the index denotes less risk country and, in theory, less probability to suffer a crisis episode.

Figure 6. Variables in the equation

		B	S.E.	Wald	Sig.	Exp(B)
Step 1	index_t-2	0,044	0,020	5,050	0,025	1,045
	Constant	-3,656	1,143	10,231	0,001	0,026

If compares the overall percentage of success achieved by model (82.5 %), that would be obtained by applying the proportional randomness approach (67.24 %), increasing success in the classification is 15.26%. This percentage does not exceed the minimum required increased (25 %) to give by significant the capacity of classification of the regression function. Seen this, the H<sub>1</sub> hypothesis must be rejected once and for all.

## ICRG

### Discriminant análisis

In this case, independent or discriminant variables are the values of the composed index at "t" moment (*compo\_t*), their respective retards (*compo\_t-1* and *compo\_t-2*) and the difference between the them (*compo\_t-t-1* and *compo\_t-1-t-2*). The composite index has been selected because it presents, jointly and weightily, the information of the other three sub-indices published by the *ICRG*: economic, financial and political subindex. Once again, the variable dependent takes a value of 1 for countries with crisis, and a value of 0 for cases without crisis.

First, it must determine if there are significant differences between the mean values of selected variables. As shown values of *Wilks' Lambda* in figure 7, nor the composed index of *ICRG* in the "t" moment, nor its two respective retards, neither the differences between them,

are significant to establish differences between countries with crisis and without crisis for the selected period.

Figure 7. Univariate F-test

Variables	Wilks' Lambda	F	Sig.
Compo_t-2	0,971	1,851	0,179
Compo_t-1	0,973	1,686	0,199
Compo_t	0,984	1,001	0,321
Compo_t_t-1	0,982	1,104	0,298
Compo_t-1_t-2	0,997	0,182	0,672

Obviously, in these circumstances where it seems that no variable is consistent, it can be very difficult to create the discriminant function that achieves distinguish the selected groups. In fact, the initially proposed *stepwise* method is applied and the results, shown in figure 8 confirm the forecast.

Figure 8. Variables not included in the function

Step	Variables	Tolerance	Min. Tolerance	F to enter	Wilks Lambda
0	Compo_t-2	1	1	1,851	0,971
	Compo_t-1	1	1	1,686	0,973
	Compo_t	1	1	1,001	0,984
	Compo_t_t-1	1	1	1,104	0,982
	Compo_t-1_t-2	1	1	0,182	0,997

In first step of the analysis all selected variables have a value less than the minimum entry established by model<sup>95</sup>. As a result, it is considered that any variable is suitable for analysis and cannot be find a discriminant function. Seen this, it can concluding that, *a priori*,  $H_2$  is not corroborated. That is, the value of the composed index of *ICRG* is not capable of distinguishing among the selected sample which countries have suffered an episode of crisis and which not (during the period range from 1994 to 2002). Now as we point in the case of the *Euromoney* index, are not met the strict assumptions that requires the discriminant analysis and, therefore, the obtained conclusion may not be entirely consistent. In order to definitively confirm the results, is made a logistic regression on the same sample.

### Logit

It is applied the *forward stepwise* method and the process does not display any results<sup>96</sup>. That is, there is no logistic function able to discriminate between groups defined by the dependent variable. In other words, none of the independent variables selected for analysis is significant and none has capacity to classify (predict). Therefore, it may definitely confirm that the *ICRG* index is unable to distinguish between countries that developed an episode of crisis and countries with similar political, economic and financial characteristics but without crisis.

<sup>95</sup> The partial minimum F to entry established by the model is 3.84 (sig = 0.05).

<sup>96</sup> One of the disadvantages of the methods by steps is the possibility of excluding from regression, either theoretical or conceptual variables that have relevance. In this sense, the analysis is also performed through the *enter* method, whose results confirm that the inconsistency emerging from the *logit* analysis on *ICRG* is not due to the modelling method.

Results of the empirical analysis clearly reject the two hypotheses formulated. Both discriminant and *logit* analysis, applied to the same sample during the preestablished period (1994-2002) have empirically shown that neither the *Euromoney* index values or the composite index values of *ICRG*, are able to discriminate in advance between countries with crisis and countries without crisis. This is, the values published by *Euromoney* index and by *ICRG* seem not reflect the political, economic and financial vulnerabilities before of producing an episode of crisis and therefore are unable to anticipate it in the medium term. What is more, from statistical point of view, the results obtained from the *ICRG* are more negative than those achieved from the *Euromoney* index. Therefore it seems that, theoretically, the *ICRG* composite index has less ability to discriminate between countries with episodes of crisis and countries without crisis than the *Euromoney* index.

## **CONCLUSION**

As has pointed in the introduction, this chapter has tried to achieve two objectives closely related.

The first one has been to contrast whether both *Euromoney* index and *ICRG* index are capable to predict well in advance crisis episodes. Taking into account that these two index are the most known and used by the international economic community, if they turned out inefficient on detecting the economics vulnerabilities that could affect to certain country and, therefore, if they are not capable to anticipate a crisis episode triggered by those vulnerabilities, the problem would be much higher and would have consequences at all levels: economic, social, political, etc. This has contrasted considering a sample that includes 13 countries that developed a crisis during the period 1994-2002, and 50 countries without crisis but in the same “country risk group” as the first. Taking this sample as basis, both discriminant and *logit* analysis have been performed.

In fact, whether this inability to forecast is accepted, should be considered the consequences this might have for public governance. In this regard, is raised the second objective, that is, the formulation of a new model that reflects the consequences of aforementioned possibility. To achieve this, the new model should surpass the national scope and integrate transnational measures.

The globalisation process surges as a link among the two objectives:. A number of studies suggest that two of negative effects of financial globalisation are the greater volatility and the mayor unpredictability of the economics events. And ultimately, it seems to raise the number of crisis and their intensity. Even there is a excellent example in order to explain this relationship: the current crisis and its non prediction; since the root of the crisis seems to be the inconsistency between financial globalisation and existing public policies and rules. However, as is pointed along this chapter, this lack of foresight is a common factor to external financial crisis in all globalisation era, and not only to the current one. And what is more, both most of the past crisis and the current one were not headed off, despite the existence of methods that measure the risk of take place a crisis, particularly, the above mentioned “country risk indexes”.

In the light of these remarks, this chapter suggests two main conclusions:

- 1) With regard to the obtained empirical evidence, the selected country risk indexes, *Euromoney* and *ICRG*, although they are able to reflect a certain set of economics vulnerabilities, do not appear to identify last combination of factors which triggered a crisis episode. So, it seems that both of them are not capable to anticipate well in advance a crisis and, indeed, do not contribute to avoid or to reduce the unpredictability of those episodes.

1) From the previous conclusion and considering that we have to deal in a globalised world, the new governance model must reject the approaches based on the easy predictability of economic events. On the contrary, it must assume the relevance of the uncertainty in the analysis and the management of the economic reality.

In resume, assuming that effectively globalisation seems to have increased the unpredictability, it is more important with a view to global governance:

- To analyze the risk sources
- To control the economic phenomena whose evolution is little sustainable.
- Finally, to forget prediction models and take more account of the risk.

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## "Globalisation et Gouvernance"

### THE UNPREDICTABILITY OF FINANCIAL CRISES IN A GLOBALISED WORLD: IMPLICATIONS FOR PUBLIC GOVERNANCE

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## Aim and approach

### • Two main objectives:

- Contrast whether the two index most known and used are capable to predict crisis episodes.
- Consider the consequences that it may have for the formulation of public governance models

### • Focus areas:

- Globalization consequences: rise in financial volatility and crisis unpredictability; Current global crises; Country risk index; Public governance.

**Double analysis:** Discriminant and *logit*

18.4

4

## GLOBALIZATION AND NEW GLOBAL GOVERNANCE

Economic globalization is the increasing integration and interconnection between the economies, particularly through the movement of goods, services, and capital across borders. (IMF, 2009)

### GLOBALIZATION

Financial globalization

### • Negative effects

Greater **volatility**  
Mayor **unpredictability**  
of the crises

Has increased the intensity and the number of crises?

18.5

4

## VOLATILITY

- ⊛ Globalization of financial markets exacerbates intrinsic distortions and lead to an increase in **volatility** (Hermalin and Rose, 1999)

Three channels to enhanced **distortions**:

1. **Asymmetric information**
2. An increased use of **derivates**
3. The role played by **institutional investors**

- 
- ⊛ Another fundamental problem: premature capital market liberalization without an earlier upgrading of financial supervision (Goldstein, 2005)

## UNPREDICTABILITY

The best example: the current crisis

The **root** of the crisis → inconsistency between financial globalization and existing public rules and policies at both domestic and international levels (EEAG report, 2009)

Main features:

- ⊛ The macroeconomic context of the prior period: the "**Great Moderation**" and the "**feel-good**" factor.
- ⊛ Excessive **risk taking**, and its concentration
- ⊛ Excessive **leverage** by financial institutions
- ⊛ **Opacity** regarding the size and incidence of risk
- ⊛ Market failure and supervisory shortcomings

## UNPREDICTABILITY

The crisis was not head off

### In spite of several alarms...

Nobody has foreseen the form that the crisis would take, its ferocity and the location and the timing of its onset.

⊕ The lack of foresight (**unpredictability**) is a **common factor** to external financial crisis in the **globalization** era.

- ✓ EWS
- ✓ Credit risk ratings
- ✓ Country risk index



Do not correctly measure the risk of taking place a crisis episode → **the country risk**

## GLOBALIZATION AND NEW GLOBAL GOVERNANCE

### Globalization has

- made **public policies** more global
- increased the importance of **international organization**: WTO, IMF, WB... (loss of "Sovereignty")

### Globalization process requires (OECD, 2009):

- to involve all **mayor players** in global economic governance.

There is a consensus that **fundamental reform** of the **global financial architecture** and the **governance model** is needed (Stiglitz, 2008).

### **Governance model** regarding to **financial system** (FMI, 2009):

- ✓ Global coordination of **monetary and fiscal policies**
  - Monetary policy should control systemic risk
  - Stronger fiscal policy in “good times”
- ✓ Mayor surveillance of the financial system
  - **Macro-prudential** approach
  - High degree of cooperation between financial regulators and expand regulatory perimeter
- ✓ Strengthened market discipline  
(**assess risk adequately**)

## COUNTRY RISK INDEXES

Are used for sort countries according to their higher or lower level of country risk. Emitting values are calculated from the weighted sum of a number of variables for a reference period.

- ✚ Use objective and opinion variables

*Business Environment Risk Intelligence*

*Economist Intelligence Unit*

*Political Risk Services: International Country Risk Guide*

*IBC index*

*Euromoney*

*EFIC's Country Risk*

*Japanese Center for International Finance*

## COUNTRY RISK INDEXES

Are they capable to predict well in advance the crisis episodes?

To contrast this issue we use data from the index most known and used by experts (Ramacharran, 1999; Rodriguez, 2006):

• ***Euromoney***

• ***International Country Risk Guide (ICRG)***

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## COUNTRY RISK INDEXES

### *Euromoney Index*

To obtain the overall country risk score, the index assigns a weighting to nine categories (Euromoney, September 2009):

- Political risk (25%)
- Economic performance (25%)
- Debt indicators (10%)
- Debt in default or rescheduling (10%)
- Credit rating (10%)
- Access to bank finance (5%)
- Access to short-term finance (5%)
- Access to capital market (5%)
- Discount on forfeiting (5%)

Take values  
between 0 - 10

Half-yearly  
publication

Monitor 185  
sovereign  
countries

15

## COUNTRY RISK INDEX

### ICRG Index

This rating comprises 22 variables in three subcategories of risk: political, financial, and economic. A separate index is created for each of the subcategories (PRSgroup, 2009):

- ⊗ Political risk
- ⊗ Economic risk
  - ✓ GDP per head
  - ✓ Real GDP Growth
  - ✓ Annual Inflation Rate
  - ✓ Budget Balance as a Percentage of GDP
  - ✓ Current Account as a Percentage of GDP
- ⊗ Financial risk
  - ✓ Foreign Debt as a Percentage of GDP
  - ✓ Foreign Debt Service as a Percentage of Exports of Goods and Services
  - ✓ Current Account as a Percentage of Exports of Goods and Services
  - ✓ Net International Liquidity as Months of Import Cover
  - ✓ Exchange Rate Stability

Monthly basis  
rating

Monitor approx.  
140 countries

Composite index  
is published

100

10

## HYPOTHESIS

**Two hypothesis** are set out:

**H<sub>1</sub>: The *Euromoney* index, and its respective retards, has ability to discriminate well in advance between countries with crisis and without crisis**

**H<sub>2</sub>: The *ICRG* index, and its respective retards, has ability to discriminate well in advance between countries with crisis and without crisis**

100

10

## THE DATA

### The sample includes:

- 13 countries which develop a crisis episode during the period 1994-2002.
- 50 countries without crisis and belonging to the same "country risk group" as the first.
  
- To classify countries in homogeneous risk groups according to *Euromoney*, it has been used the results of the *cluster* analysis carried out by Rodriguez *et al.* (2006).
  
- Likewise, the classification in risk groups according to *ICRG* has been obtained from previous analysis prepared by the authors.

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## THE DATA

### The variables:

- The value of the index at the "t" moment associated with each country: ***index\_t***
- The value of the index in "t-1" and "t-2": ***index\_t-1*** and ***index\_t-2***
- The difference between the value of the index in "t" and its retards: ***index\_t\_t-1*** and ***index\_t-1\_t-2***

### The dependent variable:

Country-Crisis = 1 // Country-NoCrisis = 0

The "t" moment is fixed when a country declare the non-payment or the rescheduling of its external debt. If this circumstance does not occur, the beginning of the crisis will be identified with serious imbalances in the banking system, serious liquidity crisis, or when the local currency value fall more than 15%.

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## THE DATA

Countries with crisis			Countries without crisis			
Country	Set off data	"t" moment	Same group in the ICRG		Same group in the Euromoney	
México	December 1993	Sep. 1993	Cameroon	Algeria	Nicaragua	Bulgaria
Venezuela	June 1994	Mar. 1994	Syria	Zambia	Vietnam	Peru
Rumania	In the mid 1996	Mar. 1996	Bolivia	Guyana	Papua	Paraguay
Thailand	July 1997	Mar. 1997	T&T	Israel	Filipinas	Poland
Malaysia	July 1997	Mar. 1997	Libya	Kenya	India	Sudan
Indonesia	August 1998	Mar. 1997	Congo	Angola	Gambia	Egypt
South Korea	November 1997	Sep. 1997	Arabia Saudi	Jamaica	Greece	Hungry
Russia	August 1998	Mar. 1998	Congo	Angola	Gambia	Morocco
Brazil	January 1999	Sep 1998	Oman	Malta	Colombia	Panama
Ecuador	August 1999	Mar. 1999	Gabon	Nigeria	El Salvador	Ethiopia
Turkey	November 2000	Sep. 2000	Letonia	Lithuania	Eslovaquia	South africa
Argentina	December 2001	Sep.2001	Croatia	Estonia	Chile	China
Uruguay	July 2002	Mar. 2002	Zimbabwe		Tunisia	

FIG. 2

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## Discriminant analysis: Stepwise method

### ICRG Index

❖ For the analyzed period, nor the composed index in "t", nor its two respective retards, nor the differences between them, are significant to discriminate between countries with crisis and without crisis.

❖ In the analysis first step, all selected variables have a  $F$  value lower than the minimum entry value established by model.

➤ It is considered that any variable is not suitable for analysis and can not be find a discriminating function.

FIG. 2

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## Logit analysis: Wald statistic forward selection

### Euromoney Index

• HL test value (sig. = 0,64) confirm that the quality of the final adjustment is appropriate.

Model summary	Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
	1	58,427	0,087	0,136

Variables in the equation	B	S.E.	Wald	df	Sig.	Exp (B)
Index_t-2	0,044	0,02	5,05	1	0,025	1,045
constant	-3,656	1,143	10,231	1	0,001	0,026

- Correctly classified 82,5% of original grouped cases.
  - ✓ Random classification: 67,24%
  - ✓ Only 2 countries with crisis are classified correctly

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## Logit analysis: Wald statistic forward selection

### ICRG Index

• The *forward selection* method does not display any results

↳ None of the independent variables selected for the analysis is significant, so they do not classification (prediction) capacity.

• The *enter* method is applied but the results do not improve in all.

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## THE EMPIRICAL RESULTS

❖ Both **discriminant** and **logit** analysis, applied to the same sample during the preestablished temporal interval, have shown empirically that

Neither of selected index (*Euromoney* and *ICRG*) was suitable for discriminating between countries with crisis and without crisis.

So, they were not capable to predict, in medium-term, the crisis episodes occurred during 1994-2002.

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## CONCLUSION

❖ The empirical results suggest **two main conclusions**:

1. Selected country risk index, *Euromoney* and *ICRG*, although are able to reflect a certain set of economics vulnerabilities

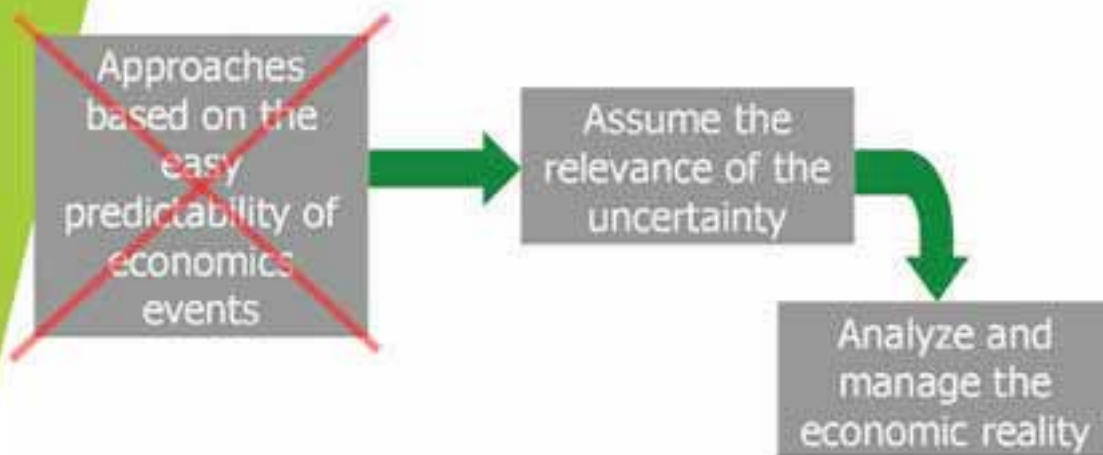
↳ **do not appear to identify last combination of factors which trigger a crisis.**

28

28

## CONCLUSION

2. In a globalised world, the **governance models...**



## CONCLUSION

Therefore, assuming that effectively globalization seems to have increased the unpredictability, it is more important with a view to global governance:

- To analyze the risk sources
- and to control the economic phenomena whose evolution is little sustainable.

**Forget prediction models and take more account of the risk**

# ***A NEW MODEL TO VALUE EMPLOYEE STOCK OPTIONS (ESO) AND THE EFFECT OF ESO PLANS ON ESO HOLDERS, STOCKHOLDERS AND BONDHOLDERS***

Robert Trommsdorff  
FACIREM  
2009

Motivated by recent recommendations by both European and American accounting Standards boards (FASB 1995 and 2004) that executive stock options be expensed in firms' statements, we provide a new Employee Stock Option (ESO) valuation framework which accounts for the vesting period, American style option, Incentive and dilution effects of ESO plan. This model highlights the interactions among ESO holders, Stockholders and Bondholders.

According to Wikipedia the definition of An employee stock option (ESO) is: "ESO is a call option on the common stock of a company, issued as a form of non-cash compensation. Restrictions on the option (such as vesting and limited transferability) attempt to align the holder's interest with those of the business' shareholders".

A large literature on the subject attempt to value ESO (see Ammann, M., & Seiz, R. 2004 and Feng-Yu Liao, Yuh-Dauh Lyuu, 2009 for a literature review on ESO valuation). We present a "new" framework to the issue of ESO valuation and we analyze the effect of ESO plan for ESO holders, Stockholders and Bondholders.

We present a new model to value employee stock options. This new model is based on the theoretical value of the stock as a call option on the value of the firm (Black&Scholes, 1973) and Geske (1979) compound option framework. Geske (1979) provide an analytical formula for the price of compound options within the Black-Scholes framework. Basically, the procedure consists of the following two steps: at first the underlying option is priced according to the Black-Scholes method; then, the compound Option is priced as an option on this security whose value has already been found in the first step.

ESO is a call option on the stock so it can be analyzed as a compound option, but the Standard option pricing models cannot be used to determine the value of employee stock options (See Hull, J., & White, A., 2004).. Vesting conditions (both time and performance-based), forfeiture of unvested and out-of-the-money options when employees leave the company, non-tradability of ESO (usually resulting in earlier, sub-optimal, exercise by employees), blackout periods, and other considerations make ESO valuation more complex than standard option valuation. Furthermore as Exercising employee stock options leads to issuance of new shares, which increase the number of outstanding shares. Hence a valuation model should take the dilution effect into account.

The dilution effect break the Geske (1979) compound option framework because the stock price (the option) is no more independent of the compound option exercise. Furthermore, ESO are american type of options (early exercise is possible). To encompass these two features we present a ESO valuation model based on a discrete time stochastic dynamic programming approach.

Our new model extends Geske (1979) compound option valuation by incorporating dilution effect and the american nature of ESO. We also incorporate the incentive effect of ESO plan described in the litterarture (see Yermack, D., 1995 and Frye, M., 1999).

In the second part of our research we analyze the effect of ESO plan for ESO holders, Stockholders and Bondholders (see Richard..1990). For ESO holders we present how incentive and dilutions effects on ESO holders wealth. We provide a way to gauge ESO holders forfeiture. For Stockholders and Bondholders we present how ESO plan can change their wealths.

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# A New Model to Value Employee Stock Options (ESO) and The Effect of ESO Plan on ESO holders, Stockholders and Bondholders

Robert Trommsdorff  
FACIREM

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- 1 – ESO Valuation

- 1.1 Black and Scholes (1973) and Geske (1979) options theory framework

- Value of a stock as an option (Black&Scholes)
    - Value of a stock option as a compound option (Geske)

- 1.2 A New Stochastic Dynamic programming ESO Valuation

- Discrete Dynamic programming Valuation
    - Model Assumptions for ESO Valuation

2

- 2 The effect of ESO plan on ESO holders, Shareholders and Bondholders

- 2.1 Effect on ESO holders

- Dilution and Incentive effects on ESO holders
- Evaluation of ESO holders exercises pattern

- 2.2 Effect on Shareholders

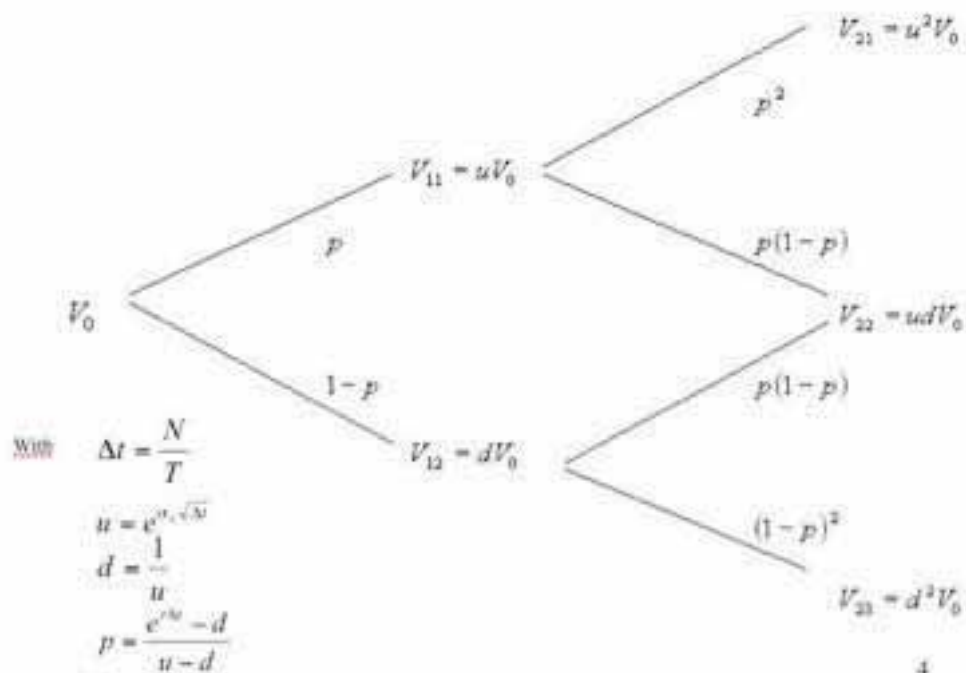
- Dilution and Incentive effects on Shareholders

- 2.3 Effect on Bondholders

- Wealth transfer and ESO Plans
- ESO plan and debts default risk valuation

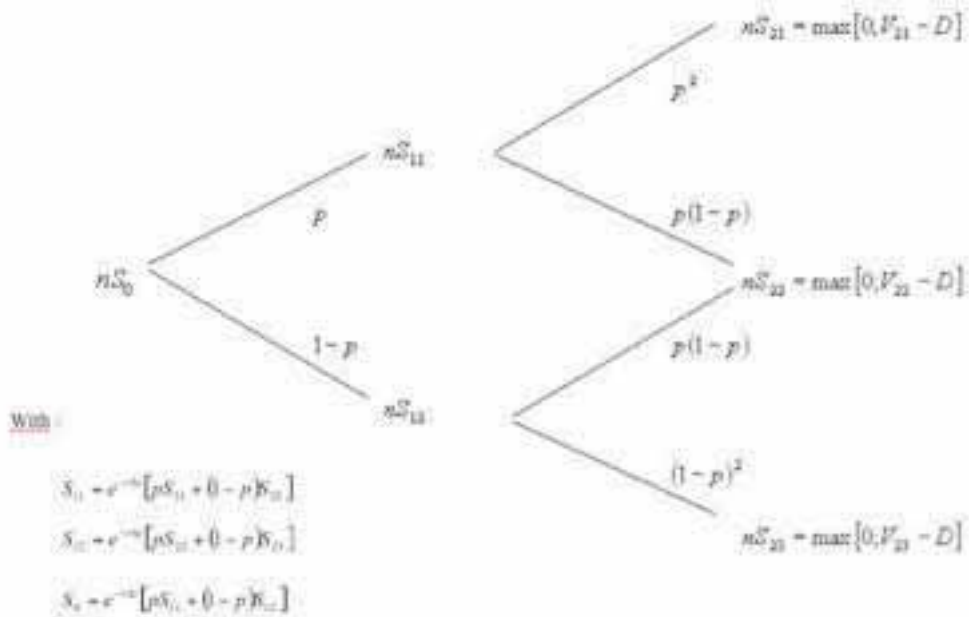
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### 1.1 Black and Scholes (B&S) options theory and the value of the Firm



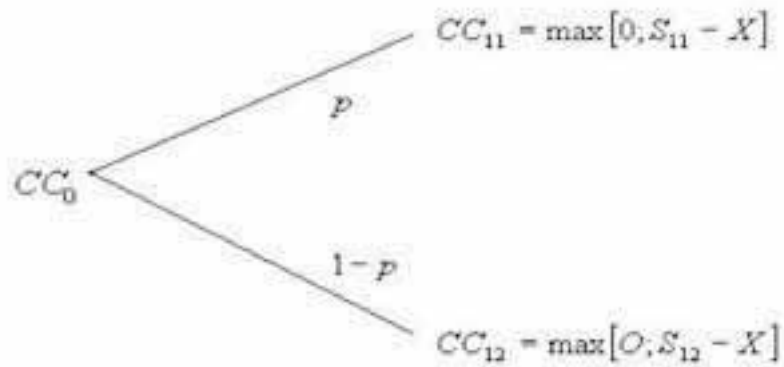


### 1.1 Black and Scholes (B&S) and the value of the stocks as a call option



5

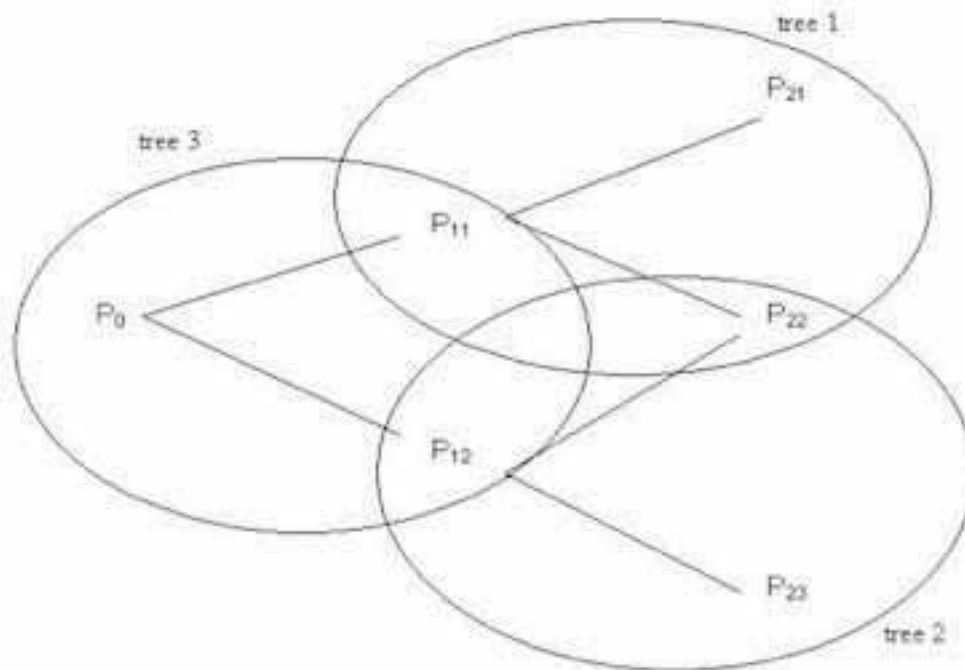
### 1.1 Geske Valuation of a stock option as a Compound Option (Call on a Call (CC))



$$CC_0 = e^{-r\Delta t} [pCC_{11} + (1-p)CC_{12}]$$

6

## 1.2 A New Stochastic Dynamic Programming ESO Valuation



### 1.2 Model Assumptions for ESO Valuation

- Black and Scholes (1973) framework
- ESO holders are Risk Neutral
- The discrete-time framework of Cox, Ross and Rubinstein (1979).
- Exogenous Incentive-Dilution effects

$$\delta_t = \beta - \frac{n}{n+m}$$

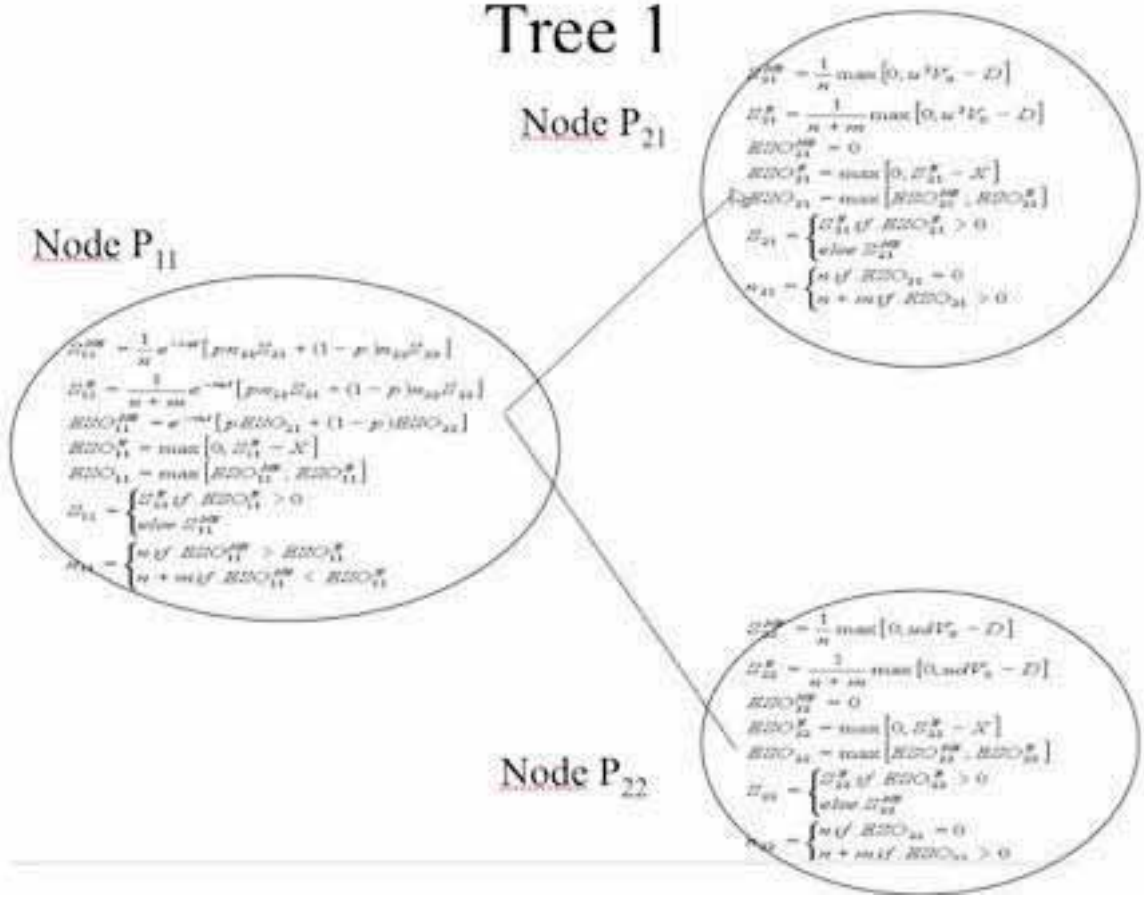
Constant
Dilution Ratio

And the Risk Neutral probability :

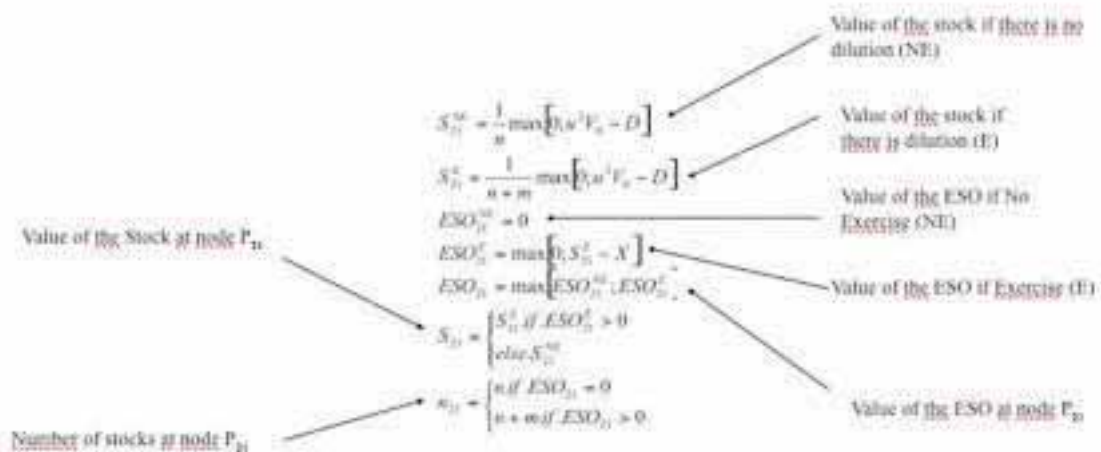
$$p = \frac{e^{(r-\delta_t)\Delta t} - d}{u - d}$$

With:  $r$ : risk free rate,  
 $n$ : number of shares,  
 $m$ : number of shares grant at the ESO plan

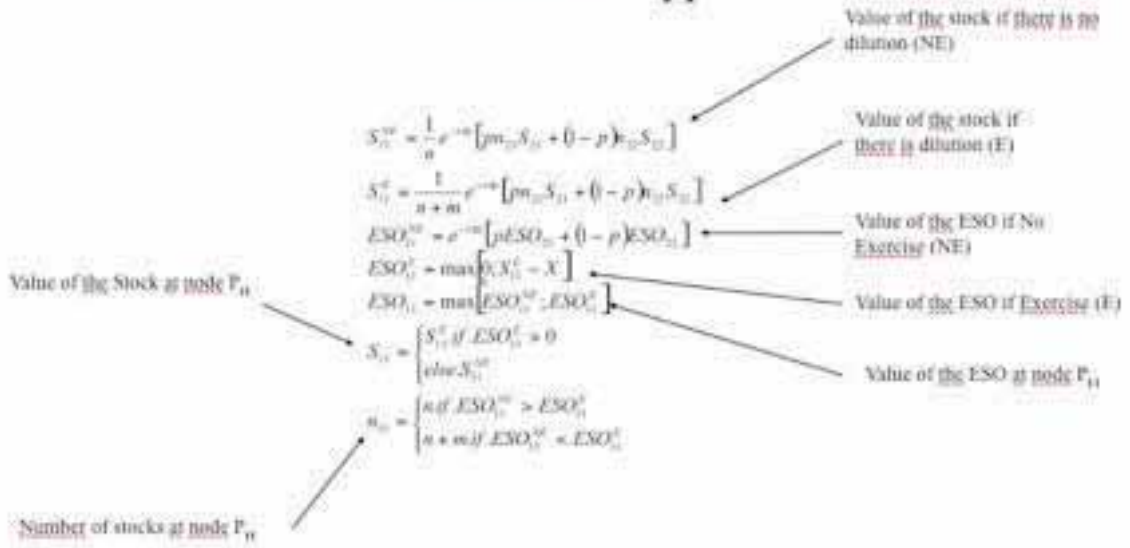
# Tree 1



## Node P<sub>21</sub>

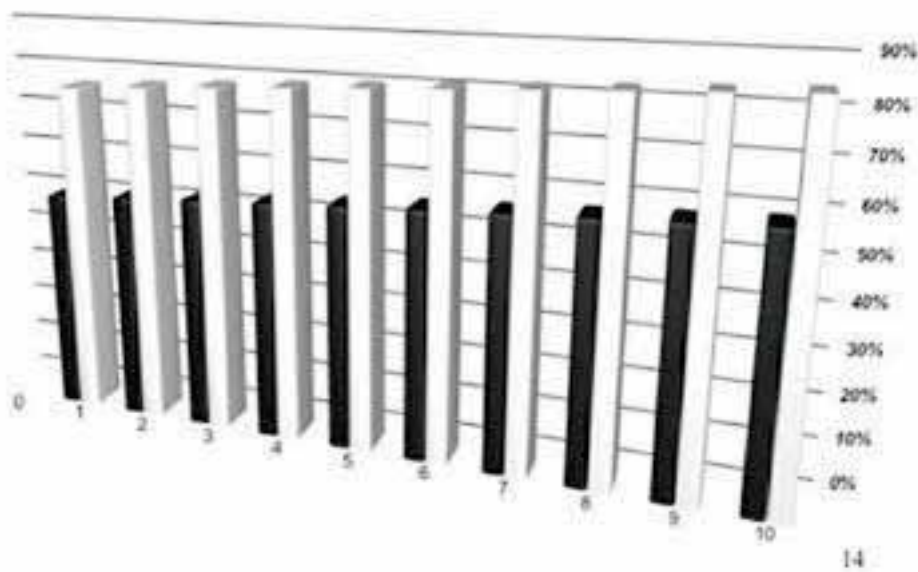


# Node P<sub>11</sub>



11

## 2.1 Effect on ESO holders



## 2.2 Effect on Shareholders

Incentive effect on Stock valuation

m	0	5	8	10
Stock	0,59	0,67	0,60	0,57

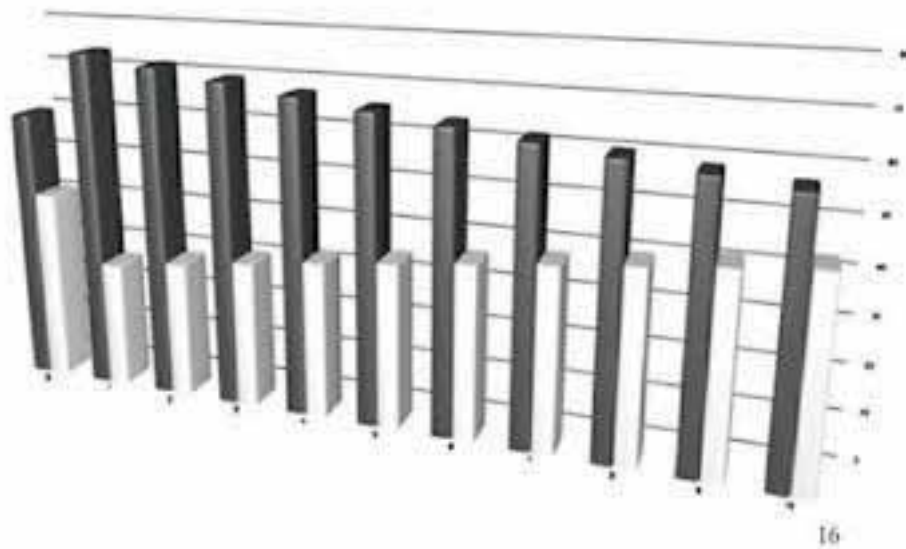
Dilution effect on stock valuation

ESO exercise

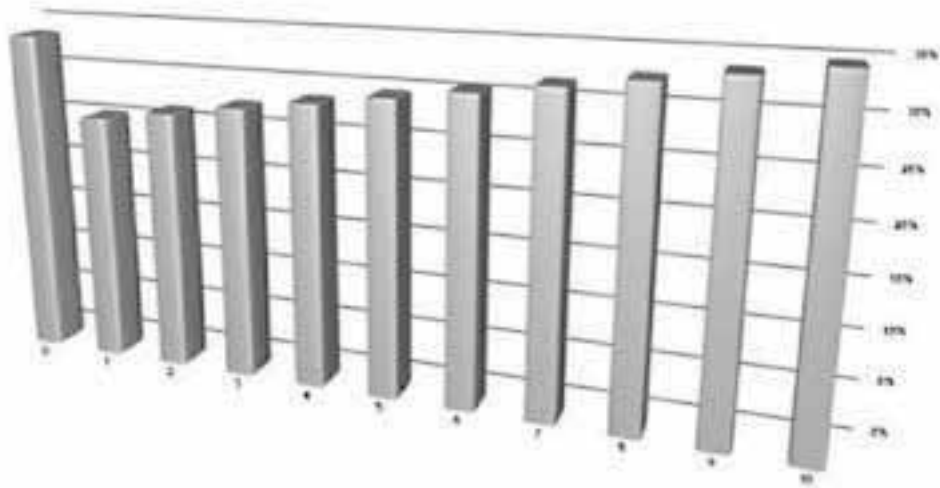
Stock Model 1	0	1	2
			2,22
		1,16	
	0,57		0,50
		0,20	
			-

Stock Model 2	0	1	2
			2,02
		1,16	
	0,57		0,50
		0,20	
			-

## 2.3 Wealth transfer between Stockholders and Bondholders



## ESO plan and Bond default risk valuation



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# ***CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE***

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## **Abstract**

The rules of good corporate governance are widely commented among academics and managers. They are, also, more and more strongly recommended in the official codes of conduct firms are expected to follow. However, these recommendations are often ambivalent. Moreover, as a whole, they compose a heterogeneous set of indicators, with mutual contradictions.

Therefore, the scope of the corporate governance rules is questionable: are they just qualitative considerations, to be interpreted and adapted according to the firm, the men and the economic context? In which case, additional rules would be needed to decide who may interpret the rules and how the interpretation should be done. Or, do the governance rules reflect a latent dimension, a common factor along which shareholders and stakeholders can truly score a firm's goodness of corporate governance? In the present article, these questions are addressed in a quantitative way, by analysing the latent structure of the corporate governance of the 134 largest French firms, as reflected by their annual reports and their public information. Based on a structural equation modelling, the dimensionality of the corporate governance rules is analysed in a predictive perspective, with financial performance as the latent dependent variable. Two dimensions of performance are considered: "asset performance", reflected by the PBR and the credit ratings, "profitability", reflected by the future price earning ratios.

Results show that a latent common factor exists, that only a few governance indicators reflect: *ownership concentration, independence of the directors, remuneration committee and governance committee*. Moreover, a negative correlation is observed between *ownership concentration* and the other three indicators. The resulting goodness of governance scale predicts significantly both forms of financial performance, with ownership concentration being the positive determinant of performance.

The role of globalisation in this model is tested by including the level of globalness of a firm as a co-factor of performance. Although, this complete model does not fit the data very well, its significant coefficients comply with theory, in particular the antecedent role of asset performance on future profitability. The effect of the level of globalisation on financial performance also appears to be both complementary and more important than the role of governance quality. In conclusion, research tracks are proposed for conceptualising and measuring governance and globalisation.

# Corporate governance rules and financial performance

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## Organizational governance (ie the governance of firms)

- Two reasons for the growing importance of organizational governance
  - Managerial reasons
    - firm's growth reaches limits, particularly in terms of complexity
    - cost-killing also reaches limits
  - Financial reasons
    - Shareholders' involvement in the firms is decreasing
    - Financial markets are more volatile
- Objectives
  - restrict as much as possible executives' opportunism
  - attract shareholders, to support the value of share and reduce volatility
- Sets of pragmatic rules and conducts, referred to as 'governance codes' are defined to achieve these two objectives (eg. the AFAP-MEDEF governance code)

2/23

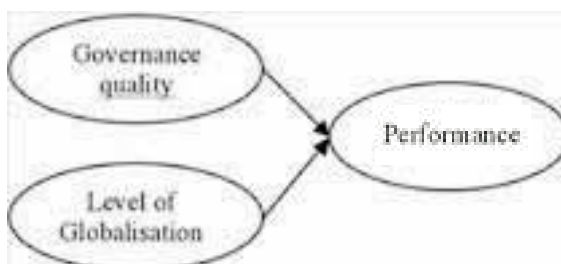


# Governance and Globalization

- The multinational firm is faced with greater governance issues
  - more diverse shareholder and stakeholder groups
  - anticipations and preferences are more heterogeneous (joint ventures, foreign creditors, cross-border acquisitions)
  - multiple boards (subsidiaries and subunits'), second-tier CEO
  - laws vary across country (e.g. workers' representation in the board)

- Two main research questions

- How do governance rules influence performance ?
- How does globalisation contribute to this relationship ?



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## The components of governance

- Managerial governance
  - The relationship between the main executives and the employees
  - Reporting, Monitoring, Coordination
  - Lots of rules, mostly contingent
- Corporate governance concerns
  - The relationship between the shareholders and the main executives
  - Ownership concentration, Board composition and leadership, Executives' remuneration
- Focus of the study
  - Corporate governance : because it concerns the head of the firm
  - Financial Performance : because “money is the sinews of war”
  - Globalisation : as a mediating strategy linking the head of the firm with its financial performance

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# Types of corporate governance rules

- The consensual rules
  - Only 20% of the rules benefit are commonly agreed by academics and managers
  - Eg : “board meetings should be assiduously attended to”
- The discussed rules (fundamental disagreement among expert)
  - Eg : “the CEO should/shouldn't be also the board's chairman”.
  - This rule is one of the most frequently changed. In France, during the last 4 years, 15% of the largest firms have changed from “Single head” to “Dual head” or vice versa (equal percentage of both changes). Some firms even shifted two times during this period (eg. S->D->S)
- The contradictory rules
  - Eg. “Independent directors is good” and “Ownership concentration is good”
- The ambivalent rules
  - “Small boards” are easier to coordinate, but they can be more easily influenced by the CEO.
  - “Big boards” may gather more expertise, but decision could be slower and conflicts be bred among factions.

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## The corporate governance rules

- The academic rules
  - they are derived from or supported by theoretical works (agency theory, transaction costs...)
- The empiric rules
  - these are the other rules appearing in official governance codes (eg the AFAP-MEDEF), often with precise guidelines, and discussed in the annual reports.

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# The academic rules (1)

- Ownership concentration
  - item 1: Number of large-block shareholders = those obliged to declare their share (eg 5% of the capital)
  - item 2: Percentage of shares they own
    - Limited dilution is recommended because it denotes more involvement in the firm. However, this opinion is often contradicted by the volatile action of Pension Funds
    - Family owned firms are usually not differentiated
- Management remuneration
  - item 3: Existence of a remuneration committee
- Board independence
  - item 4: Proportion of “inside” directors versus “outside”ones
    - Insiders may be more informed about the firm, but they are more likely to be influenced by the CEO

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# The academic rules (2)

- Board Chairmanship
  - item 5: Is the CEO also the board directors’ chairperson ?
    - “Dual head” improves shareholders’ protection (Agency theory), but ‘Single head’ improves coordination and is less expensive in terms of the remuneration
    - It is more expensive to remunerate two heads than one.
    - Note : it is one of the most frequently changed parameter. In France, during the last 4 years, 15 % of the largest firms have changed (equally shared between S->D and D->S). Some firms even shifted 2 times.
- Board size
  - item 6: number of members of the board
    - Small boards are easier to coordinate, but they can be more easily influenced by the CEO. Big boards may gather more expertise, but decision could be slower and conflicts be bred among factions.

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## The academic rules (3)

- Interlocking directorate
  - item 7: Proportion of board members exchange with other firms
    - Interlocked directorates enable strategic coordination, information exchange and support with other firms. However, they may lead to latent strategies from the brother-firms (trojan horse).
- Inbreeding
  - item 8: Number of senior executives joining the board after retiring from management
    - retired executives may bring continuity and stability, but it could dissuade the detection and correction of previous corporate misbehaviours.

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## The empirical rules

- Item 7: number of board meetings
- Item 8 : assiduity to the board meetings
- Item 9: existence of a governance committee
- Item 10: employees' membership to the board
  - Legal obligation in some countries
  - Remain of the previous status of an ex-public firm
  - Against independence of the members
- Item 11: length of the director's mandate
  - Longer term view but possible delayed action
- Item 12: age of the directors
  - Experience against youth
- Item 13: percentage of board members from other countries (mostly boasted by multinational firms)

10/23

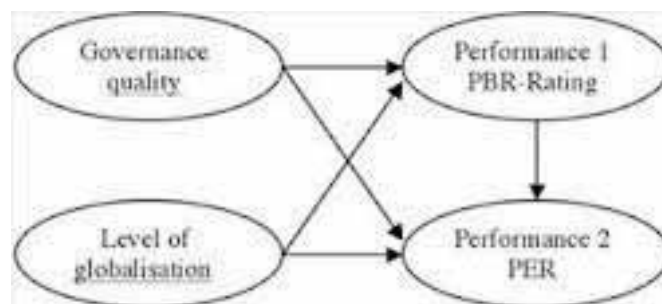
# Financial performance

- Indicators from the balance sheet
  - item 14: Price Book Ratio (PBR)
    - Efficiency : use of the assets
    - $PBR = \text{stock market capitalization} / \text{net asset}$
    - Present/short term indicator
  - item 15: Corporate credit rating (CCR)
    - Security : Credit worthiness of the borrowers (Long-term obligation ratings)
    - Rated by Moodys, Standard & Poor and Fitch
- Indicators of profitability
  - Price Earning Ratio (PER)
    - Profitability : Number of years of benefit needed to pay back a share
    - $PER = \text{stock market capitalization} / \text{net result}$
    - Strategic indicator, future oriented (PER n+1, PER n+2)

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## Financial Performance (2)

- The two types of performance are linked
  - Profit derives from the investments
  - Debt is a major determinant of future profit
  - The future is based on the present



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# Level of Globalisation

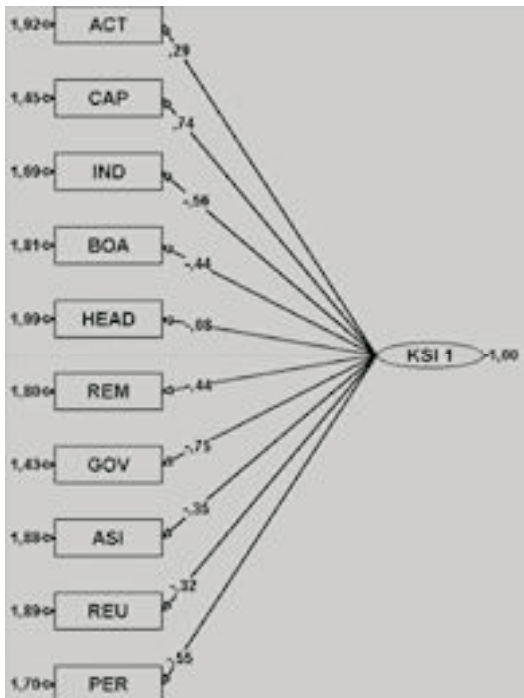
- Four types of indicators of globalization are currently referred to in the literature
    - Commercial indicators
      - foreign sales in total sales
      - foreign profit in total profit
    - Geographic indicators
      - number of foreign subsidiaries in the total number of subsidiaries
      - number of countries where a significant (eg 5%) share of the sales is done
      - cultural dispersion of international operations
    - Asset indicators
      - foreign assets owned by the firm in total assets
      - foreign owned assets in the firm's total assets
  - There is no common factor to all these indicators
    - A firm can sell a lot abroad and produce only at home
    - A firm can have lots of subsidiaries abroad and concentrate the profits in a fiscally friendly place (Dell), or in the home country where the design and the strategy take place (Nike)
- => We focus on the geographic indicators (countries, subsidiaries)

## The data

- The 134 largest French firms
  - Those eligible for the deferred settlement service
  - market capitalization is at least 1 billion euro
  - daily trading volume is more than 1 million euro.
- Sources
  - the official shareholders' information, made available by the firms' Annual Reports and websites
  - the predominant information sites on the internet: "Boursorama" (subsidiary of the Société Générale).
- Collected variables (12)
  - 10 indicators of corporate governance (1 to 6 and 7 to 10)
  - all the indicators of financial performance (items 12 to 14)
  - the 2 indicators of geographic globalization

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# Dimensionality of the governance rules



- . Bartlett's test of sphericity:  $P = 0,6$
- .  $KMO < 10^{-5}$
- . MSA of HEAD and REU  $< 0,5$
- .  $X^2$  with 35 df = 50,77,  $P = 0,041$
- . RMSEA = 0,058
- . AGFI = 0,90

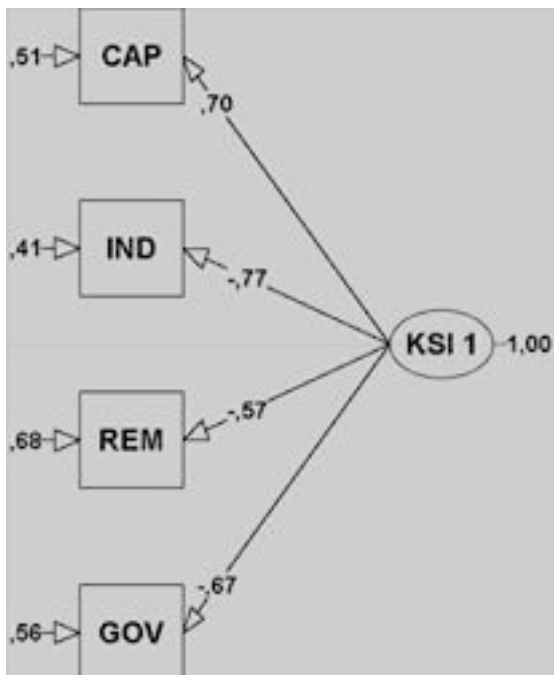
. HEAD and ACT not significantly linked to the dimension ( $|t| < 2$ )

⇒ Perhaps one-dimensional, but:

- . sampling problems
- . low convergent validity
- . low reliability

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# Dimensionality of the governance rules (2)



- .  $KMO < 10^{-5}$
- . MSA of HEAD and REU  $< 0,5$
- .  $X^2$  with 2 df = 2,58,  $P = 0,28$
- . RMSEA = 0,047
- . AGFI = 0,95

. All the items are significantly linked to the dimension ( $|t| > 6,32$ )  
 . No non-zero modification indices

NB: no dimension emerges from the remaining items, whatever the factor analysis design (separate or conjoint with dimension 1).

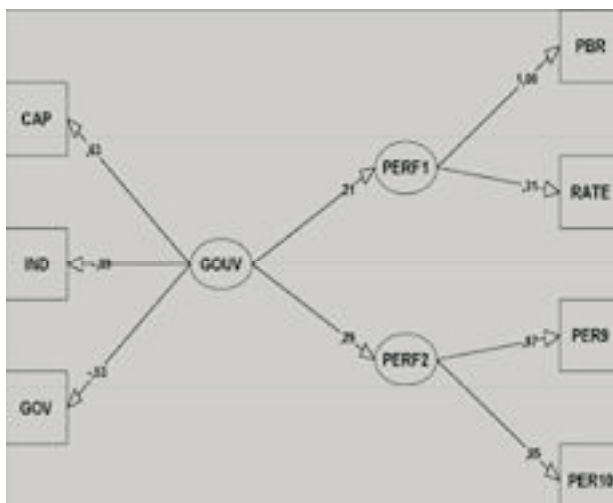
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# Comments

- One dimension emerges from the corporate governance rules
  - This dimension translates the existence of a common factor underlying firms' attitude toward the governance rules
  - It is only reflected by 4 of the 10 governance rules
    - Percentage of the capital held by major shareholders
    - Percentage of independent administrators
    - Existence of a remuneration committee
    - Existence of a governance committee
- There is a bipolarity between “ownership concentration” (a few large shareholders) and “administrators' independence” + “control committees”
- The number of heads (CEO ≠ Chairman) does not emerge as a significant indicator

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## Relationship of corporate governance and financial performance



.  $X^2$  with 13 df = 16,31 P = 0,23

. RMSEA = 0,044

. Remuneration committee removed (low convergent validity)

. All the coefficients are significant at the 95% level

. No non zero modification indices

. No PERF1 to PERF2 significant relationship

There is a linear relationship between the latent factor of “governance” and the two factors of “financial performance”

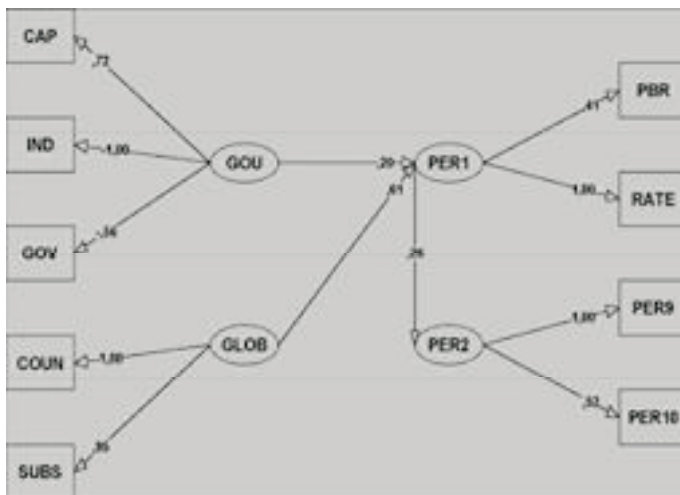


# Comments

- The quality of governance, measured as the common latent factor of the governance rules, has a strong predictive validity
- It predicts the two dimensions of financial performance
- The cause to effect relationship seems to be independent (no indirect effect of GOV on PERF2 via PERF1)
- Governance predicts better PERF2 than PERF1  
=> Profitability more depending on the major shareholders than Security

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## The influence of Globalisation



.  $X^2$  with 27 df = 294,8

P = 0,0

. RMSEA = 0,27

. All the coefficients are significant at the 95% level ( $|t| > 3,12$ )

. No non zero modification indices

The model does NOT fit the data

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## Comments

- The level of geographical globalisation does not modify significantly the “Governance” to “financial performance” relationship
- However, as reflected by the significant coefficients in the model, the inclusion of indicators of globalisation in the model provides results which
  - comply with theory, in particular the mediating role of present performance on future performance
  - suggest that globalisation completes and surpasses governance in causing performance
    - R2 from globalisation 0,04
    - R2 from geographical globalisation 0,37

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## Conclusion

- There is a common factor of governance quality
  - It is reflected by a limited number of rules
  - It is ambivalent : one rule (ownership concentration) opposes the others
  - It predicts financial performance
- Ownership concentration is positively correlated with financial performance. Independence of the directors and the existence of committee(s) have a negative effect.
- The level of geographical globalisation does not modify significantly these empirical findings
- However, the significant relationships in the complete model comply with theory, in particular the mediating role of present performance on future performance

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# Limits and perspectives

- The study was done from the 2008 data. It may be sensitive to the global crisis. It would be interesting to test this hypothesis by replicating the study with data from other years
- The reason why “Ownership Concentration” is so important deserves theoretical work.  
In particular, a difference could be sought between “family owned” firms and those belonging to a few large “financial shareholders” (eg equity funds)
- There was a major problem measuring Globalisation. However, the results of the inclusion of this concept in the complete model comply well with theory and are intellectually stimulating.  
It seems urgent that quantitative measurement studies enable the concept of globalization to become less polysemic and undetermined.

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**Session 6: ETHICAL AND SOCIAL ISSUES**  
***Chairman: Yves-Louis Sage (GDI, Université de Polynésie Française, France)***

***. Ethics and globalisation*** ***p. 299***

Lorenzo Gascón (Vice-President of the Real Academia de Ciencias Economicas y Financieras, Barcelona, Spain)

***. Gouvernance des organisations et  
« biologisation » des rapports sociaux : un enjeu  
du XXI<sup>ème</sup> siècle*** ***p. 306***

Bernard Rouillet and Olivier Droulers (IREA, Université de Bretagne Sud, France), Marie-Pierre Pinto (CREOP, Université de Limoges, France)

***. The Challenges of Legal Pluralism in the  
South Pacific in the context of the globalisation  
of trade*** ***p. 343***

Tony Angelo (Victoria University of Wellington, New Zealand) and Yves-Louis Sage (GDI, Université de Polynésie Française, France)

# “Ethics and globalisation”

Lorenzo Gascón  
Vicepresidente y Académico de Número  
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## Abstract

Many consequences of globalisation are hosting alarm signals with regard to the present weakness of the economic governance. We are right to be worried, very worried.

We are enduring deep changes in government, the markets, corporate behaviour and the handling of information. We strongly need guidelines to help and to set us on the right path.

Ethics is lacking everywhere. Trust has to be restored in corporations.

Transparency and making the inner work visible has to be the way to all. But, pressure on companies to clean up their acts is making it difficult.

Executive compensation, out of control is likely to fall back in an effort to create a sense of fairness.

When a company makes up or inflates its figures, everyone suffers: investors, financial markets and employees.

The whole world is a closed economy. Measures and stimuli won't work without coordination.

Years and years of unregulated and risky deals have exposed huge financial corporations to colossal losses.

Moreover, those who helped to create the problem are receiving huge bonuses with the losers or the government money. Here, we cannot forget the club of many unscrupulous consultants and auditors.

The financial waves in a global world are hitting up the last corner. Nowhere is immune. Ethical bankruptcies have been derailing the global markets.

Whenever we ask the experts what we should do, the honest answer would “we don't know”.

More than money and politics, ideas are the core of the possible solutions. And these mainly have to be based in ethics in this crowded planet with a common fate.

Let's add that ethics reduces costs. Trust can be rebuilt Erosion of confidence in the markets is in shock: but, the corporate clean up under way has to afford positive results. Ethics is the key word and good governance and the personal example are the right tools

# ETICA Y GLOBALIZACION

En la vigésima segunda edición del último Diccionario de la Lengua Española, la Real Academia define la ética como “el conjunto de normas morales que rigen la conducta humana” y la moral “como la ciencia que trata del bien en general”.

Asimismo, define como gobernanza el “arte o manera de gobernar que se propone como objetivo el logro de un desarrollo económico, social e institucional duradero, promoviendo un sano equilibrio entre el Estado, la sociedad civil y el mercado de la economía”.

Quien intenta decir algo, hoy en día, sobre la globalización no puede remediar enfrentarse con la crisis existente, que abarca no solo el mundo de la economía sino a los valores morales sobre los que debiera basarse el normal funcionamiento de la sociedad.

La crisis de estos valores se inició en los años sesenta en las universidades, y se extendió a las iglesias, al sistema escolar y al ejército. Hoy en día la crisis se ha extendido también, a los pilares del poder democrático.

Una condición indispensable en la relación humana es la credibilidad. Sin tratar de ofender a ninguno de los políticos de la sociedad global en que vivimos, es fácil observar en qué medida mengua la autoridad personal e institucional si el ciudadano se ve defraudado en sus expectativas.

En la superación de las crisis, el primer paso es siempre el más difícil. Una vez alcanzado y experimentado el éxito visible de las primeras medidas, entonces crece la confianza en el propio esfuerzo y la seguridad en los que dirigen la sociedad. El segundo paso es ya más fácil y el principio de la superación de la crisis ya es un hecho.

El Presidente de Alemania, Prof. Dr. Horst Köhler, afirma que los fundamentos del éxito se reducen al restablecimiento de la confianza.

Sobre este particular quisiera añadir algo más. En la filosofía de la historia existe una teoría que relaciona todo logro humano, incluso la creación de la cultura humana, con el principio del reto y la respuesta (“challenge and response”). Este es el hilo conductor de la magna obra de Arnold J. Toynbee, “A study of History”.

Si en la presente crisis económica de nuestra sociedad globalizada pasamos al reto de los números rojos que pueden, o no, obedecer a una acertada toma de decisiones y una, o no, correcta gestión, aparece además de la falta de escrúpulos en los medios, la tentación de lo que ha venido en denominarse contabilidad creativa. Es decir, la falta de transparencia y la manipulación de los resultados.

Con todas las esperanzas que conlleva, el origen griego de la palabra “crisis” tiene su causa, en gran medida en la enfermedad más grave que padece nuestro mundo: la carencia de virtudes morales. Sobre todo, las cardinales. Prudencia, justicia, fortaleza y templanza.

O estas virtudes recuperan su supremacía en cada persona -hombre o mujer- o la sociedad se precipitará, fatalmente, en el caos.

Recientemente, el Dalai Lama manifestaba que en nuestra globalizada sociedad humana ocurren cosas negativas. Pero toda esta corrupción y las personas que la practican, tarde o

temprano desaparecerán. Debemos aspirar a crear una nueva sociedad integra. Una nueva y honesta sociedad no puede surgir de regulaciones gubernamentales, sino desde el seno de la familia, desde cada individuo, con una mente sana y serena y una visión correcta.

Se ha dicho mucho sobre los síntomas de las crisis históricas. Especialmente en nuestros tiempos, la falta de compromiso con las pautas de valores, que antaño eran indiscutibles, pertenece tanto a los síntomas de una crisis como a la pérdida de prestigio de la Autoridad establecida.

Cada vez que en la historia ha sido puesta en duda la Autoridad reconocida -y esto es válido tanto para los cónsules romanos como para el Papa hacia finales de la Edad Media, así como para el Rey en vísperas de la Revolución Francesa- la sociedad se sumerge en una crisis general.

En la actualidad, en el mundo globalizado en el que vivimos sería especialmente de gran interés conocer donde está la causa y el efecto. Dicho de forma más simple, ¿es la debilidad de arriba (por ejemplo, en una democracia, la arrogancia que es posible observar durante un largo período de permanencia en el poder) la que provoca el levantamiento de la base, o es la constante agresión crítica, en aumento, de la base la que paraliza paulativamente el ejercicio de la autoridad?

Sospecho que no es posible encontrar una respuesta válida y terminante porque, como siempre en la historia, no existe ninguna monocausalidad, sino un sistema muy complejo de diferentes causas de retroceso que es difícil poder deslindar.

Lo que sí es cierto es que en buena medida se han ido descubriendo las prácticas irregulares y dolosas. Sus consecuencias están a la vista en las bolsas, en la confianza de los inversores, en la reducción del consumo de los ciudadanos al haberse volatilizado buena parte de sus ahorros y, en fin, en lo que denominamos economía global.

“Time” en su editorial de Julio 8, 2002, “Loosing faith in Corporate America” aseveraba que cada nuevo caso de contabilidad “creativa” y de cuenta de resultados ficticia era un nuevo golpe para la credibilidad de la “Corporate America”.

Este aserto se hacía seis años antes de que se generara la crisis del pasado año. Nadie podía imaginar lo que se ha producido con los casos Lehman, Madoff o UBS, para citar unos pocos pero emblemáticos fiascos.

Los norteamericanos siempre han tomado muy en serio su constitución política, pero no lo han hecho con la constitución de sus campañas y las responsabilidades de aquellos que las dirigen y financian.

Se ha contemplado a las sociedades como simples vehículos para la expresión de los derechos de la propiedad privada y, en consecuencia como casi intocables.

La propiedad privada era casi como un jardín secreto en el que el Estado no debía asomarse. Podía regular los resultados de la conducta empresarial, pero nunca sus procesos internos.

El divorcio entre la propiedad y el control ha sido evidente.

Las consecuencias están a la vista. Entre los accionistas y los políticos ha cundido el pánico por las implicaciones que en su entorno ha tenido la falta de escrúpulos de la dirección de muchas de las grandes compañías.

Y aquí hemos de retomar el hilo de la referencia a la crisis de valores en que vivimos en la actualidad. En lo que se ha dado en llamar la globalización.

Michael Elliott, en el World Economic Forum celebrado en Davos a principios del corriente año 2009, decía que la economía global ofrece hoy un panorama poco apetitoso.

Una de sus manifestaciones es la crisis de la ética.

La ética, al igual que la lógica, es una materia filosófica. Pero a diferencia de esta, la ética tiene un carácter eminentemente humanístico. Se nos plantea de inmediato como se puede distinguir objetivamente lo bueno de lo malo. Cual debe ser el criterio para juzgar el bien y el mal.

Richard Von Weizsäcker, Ex-Presidente de la Republica Federal de Alemania y Ex-Alcalde de Berlín, en ocasión de recibir el “Premi Internacional Catalunya”, decía en 1995 que *“Solon definió la política como la función de equilibrar los intereses contrapuestos de los ciudadanos. Y designó la ética como un objetivo de la constitución”*. Y añadía, *“necesitamos la ética para satisfacer esta necesidad elemental de la persona que es la justicia”*.

Pero hay, también, quien cree que las normas morales no son fijas y cambian con el tiempo. El dilema, para muchos, es que las normas morales son cuestión de costumbres o necesidades que van cambiando con el tiempo, con el lugar y con las personas.

Y el colofón que en la práctica hoy padecemos es la indiferencia hacia toda norma moral.

Santo Tomás de Aquino decía que la ley moral es más una *“ordenación de la razón promulgada para el bien común por quien tiene el cuidado de la comunidad”*.

Es evidente que haría falta que el mundo actual, y en especial la clase dirigente, profundizara sobre las enseñanzas y el proceder que puede conseguirse de la ética.

El Papa Benedicto XVI en la Encíclica “Caritas in veritate” publicada en Julio de 2009, dice que *“ante la crisis que sufre la economía globalizada, la Iglesia no tiene propuestas técnicas que aportar pero sí soluciones éticas”*.

El Profesor Peter Ulrich, de la Universidad suiza de St. Gallen, entiende por principio “la Ética como correctivo del fallo de la Economía”:

“The State we’re in”, de Will Hutton ha sido una de las obras político-económicas más vendidas durante una generación. Su siguiente obra más significativa “The World we’re in”, es un verdadero revulsivo para entender la economía global.

Hutton opina que durante los últimos treinta años las fuerzas conservadoras han alcanzado tal supremacía, que han reducido el liberalismo en unos términos de verdadero abuso.



Los resultados están ahí. Los Estados Unidos son la potencia económica y militar más grande del mundo. Pero América es hoy una sociedad más débil, más fragmentada y su fuerza ya no se basa con la credibilidad.

El articulista Robin Knight comenta que:

- La democracia americana, hoy es una ofensa a los ideales democráticos.
- El objetivo de la corporación americana está hoy al desnudo y sin ningún recato: maximizar el beneficio financiero para aquellos que la controlan.
- El sistema americano no es solo injusto, sino, también, calamitosamente ineficiente.

Hace ya más de siete años, en el editorial del “Business Week” de Mayo 13, 2002, se afirmaba: “*Wall Street’s corruption is an American crises*”.

De todas formas han surgido muchas voces clamando por un cambio de cultura, De este modo, John A. Byrne en un largo alegato sobre ideas que habría que tener en cuenta para un mundo cambiante, asevera entre otras:

- La transparencia debe presionar a las compañías para que sus actuaciones sean limpias.
- Una cultura abierta para que los empleados de las empresas puedan poner de manifiesto los lapsos éticos y las prácticas incorrectas.
- La remuneración de los ejecutivos, hoy fuera de control debe reconsiderarse para crear un sentido de claridad.

Asimismo, Harry M. Jansen Kraemer Jr., Presidente de Baxter, manifestaba: “*No sé si necesitamos más leyes. Lo que necesitamos es gente que dirija las corporaciones con un alto nivel de integridad. Y precisamos que las leyes y reglamentaciones vigentes se cumplan debidamente*”.

“The Economist” en su editorial de Junio 8, 2002 sentenciaba pragmáticamente: “*trust, but verify*”.

Como consecuencia de este panorama, aparecen ya no sólo voces sino fuertes corrientes contra la libre empresa. La excusa es la lucha contra la globalización.

Así, aparece creciente el espectro del retorno al nacionalismo económico.

Es la crítica al dominio de la economía por parte de unas pocas multinacionales que llegan a dictar a los políticos lo que deben hacer.

La prepotencia de estas compañías hace posible no sólo actuaciones a escala mundial de carácter inaceptable desde un punto de vista moral para buena parte de la humanidad, sino que, además, la opacidad de su gestión y la falta de control de sus órganos volitivos llevan a actuaciones y situaciones reprobables como las que estamos viviendo hoy en día.

Mayormente, este proceder y este poder se dan en algunas grandes corporaciones de unos cuantos sectores estratégicos como son por ejemplo, la banca, la energía, la aeronáutica, las telecomunicaciones, la industria armamentística, etc.

Dicho lo que antecede, quede claro que la búsqueda del beneficio lícito no tiene nada de inmoral. Constituye una necesidad económica. Sin beneficios no hay progreso técnico y social. Los beneficios de la empresa, antes que a distribución de dividendos sirven, en primer lugar, para financiar las inversiones, para aumentar la productividad, para crear nuevos puestos de trabajo y, de una manera creciente, para satisfacer las necesidades financieras del Estado.

Si gracias a la capacidad de rendimiento de la economía liberal, el nivel de vida de grandes capas de la sociedad de los países que la han adoptado se ha incrementado extraordinariamente, no por ello se han de acallar o disimular los defectos del sistema. Tiene riesgos pero siempre vale mucho más que los sistemas colectivistas que han prometido tanto y han proporcionado tan poco al individuo.

Dieter Hundt, Presidente de la Confederación Federal de las Asociaciones de los Empresarios Alemanes (BDA) en la Conferencia de Empresarios celebrada en Berlín el 4 de noviembre de 2008, afirmaba que *“todos los responsables en la política, en la economía y en la sociedad están llamados a defender y mantener la capacidad de atracción de nuestra ordenación económica libre y social”*.

De lo que se trata es de asegurar el derecho a una información fiable. Para así dar la oportunidad a que el derecho a la discusión en las asambleas generales se desarrolla sobre datos ciertos. Esto es, no manipulados.

La persecución prioritaria del beneficio a toda costa no es lo más importante. Los intereses a largo plazo, una buen atmósfera de trabajo, una relación transparente con los accionistas y el crecimiento económico han de ser pilares esenciales en toda empresa sana.

A este respecto, el Prof. Dr. Santiago García Echevarría, de la Universidad de Alcalá de Henares asevera que todo comportamiento ético en las relaciones entre los hombres implica siempre transparencia, la cual genera incertidumbre en los comportamientos de las personas implicadas en las distintas relaciones económicas y sociales.

La ética facilita las relaciones entre personas y, en particular, crea las instituciones.

Las instituciones requieren confianza. En el momento en que no se dan las condiciones de “capital-confianza” no existe una empresa.

La ética en la economía se apoya, naturalmente, y en primer término, en los valores de los individuos que dirigen las empresas y las instituciones.

Y para terminar, digamos que en este mundo globalizado en el que vivimos la ética no sólo debe presidir nuestros actos, sino que hemos de hacer lo preciso para que sea también la pauta para los demás.

Que los demás no nos impongan sus prácticas.

De este modo, el Prof. Koslowski entiende *“la ética como correctivo de los fallos de la economía, es decir, como correctivo de la racionalidad económica”*.

La racionalidad económica, como tal, representa una racionalidad de los hechos libres de ética. Esto es, puramente económicos.

En cualquier caso, y este es el mensaje positivo, nos queda la capacidad y la fuerza del ejemplo. Por lo menos, esto sí que lo tenemos.

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# ***“BIOLOGIZATION” OF ORGANIZATIONAL GOVERNANCE: A MAJOR CHALLENGE OF THE 21ST CENTURY***

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## **Abstract**

In a subtle and inconspicuous way, the invention and the growing practice of functional brain imaging (fMRI) in the early 1990s have revolutionized the approach to cognition in living organisms. Far from only focusing on biology and physiology, advances in (cognitive and affective) neurosciences have slowly but heavily pervaded the humanities and social sciences (HSS). Today, a researcher in HSS, particularly in political science, sociology, education science or public governance, cannot overlook some achievements of neuroscience which are profoundly altering our vision of the human being and her relations with her kin, without running the risk of being disconnected from the research leading edge.

Now, neuroscience provides new paradigms to renew, refresh and transform the theories that have prevailed until now for nearly a century or more. Now considering the decision making process (in situations of uncertainty or not), the risk aversion, the pursuit of power, the correlates of attitudes and beliefs, the foundations of leadership (or followership), the process of persuasion or conversion, the phenomena of burnout and resilience, requires bearing in mind works of neuroscientists who bring new insights that are very complementary to conventional approaches in HSS. Any public organization which has authority over any aspect of social policy (justice, education, law enforcing, ethics, citizenship and so forth) could enrich its reflection, its judgment and its developing projects, in taking into consideration the neuroscientific breakthroughs that confirm or on the contrary refute social dogmas or doctrines. Some authors thus advocate an epistemological pluralism that could benefit the different stakeholders (Farmer, 2008).

The authors propose to outline the recent growth of the brain sciences and to replace contextually their contributions to various disciplines of HSS, and to suggest the main venues of research in which they will prove to be essential in the future, in the study of organization governance.

Key-words: Governance, decision neuroscience, paradigm shift, epistemology, neuroeconomics, neuroelaw, naturalization, biologization of social sciences.

# Gouvernance des organisations et « biologisation » des rapports sociaux : un enjeu du XXI<sup>e</sup> siècle

## Résumé :

De manière subtile et discrète, l'invention puis la maîtrise grandissante de l'imagerie cérébrale fonctionnelle au début des années 1990, ont bouleversé la façon d'aborder la cognition dans le vivant. Sans se cantonner à la biologie et à la physiologie, les progrès des neurosciences (affectives et cognitives) ont progressivement mais massivement infusé les sciences humaines et sociales. Aujourd'hui, un chercheur en SHS, en particulier en sciences politiques, en sociologie, en sciences de l'éducation ou en administration publique, ne peut faire l'impasse sur certains acquis des neurosciences qui modifient profondément notre vision de l'humain et des relations avec ses congénères, sans courir le risque d'être déconnecté du front de la recherche.

Désormais, les neurosciences apportent de nouveaux paradigmes qui renouvellent, rafraîchissent et transforment les théories qui ont prévalu près d'un siècle, voire davantage. Etudier aujourd'hui les processus de prise de décision (en situation d'incertitude ou non), l'aversion au risque, la recherche du pouvoir, les corrélats des attitudes et des croyances, les fondements du leadership (ou du suivisme), les processus de persuasion ou de conversion, les phénomènes de « *burn-out* » et de résilience, impliquent la prise en compte de travaux neuroscientifiques qui apportent des éclairages nouveaux et des angles de vue très complémentaires des approches conventionnelles en Sciences Humaines et Sociales. Toute entité publique qui a autorité sur des aspects de politique sociale (justice, éducation, maintien de l'ordre, éthique, citoyenneté) pourrait enrichir ses réflexions et ses projets de développement en prenant en compte des apports qui confortent ou au contraire infirment des dogmes sociaux. Certains auteurs prônent d'ailleurs un pluralisme épistémologique qui puisse profiter aux différentes parties prenantes (Farmer, 2008).

Les auteurs se proposent de retracer l'essor récent des neurosciences et de replacer contextuellement leurs apports aux diverses disciplines des Sciences Humaines et Sociales, puis de proposer les principales voies de recherche pour lesquelles les neurosciences s'avèreront incontournables à l'avenir dans l'étude de la gouvernance des organisations.

Mots clefs : gouvernance, neurosciences de la décision, changement de paradigme, épistémologie, neuroéconomie, naturalisation, « biologisation » des sciences sociales.

## Introduction

Depuis près d'un siècle et demi, les progrès saltatoires (au sens évolutionniste du terme<sup>97</sup>) des sciences du cerveau ont permis de réaliser des avancées décisives dans la compréhension non seulement du cortex et de ses modules fonctionnels mais également des cognitions, des affects et des propensions tempéramentales des êtres humains, sous-tendus par l'architecture synaptique et l'activité massivement parallèle des neurones du système nerveux central. Depuis une vingtaine d'années, les progrès techniques significatifs intervenus dans les disciplines neuroscientifiques ont permis des percées majeures dans la compréhension de l'esprit ou de la conscience (Delacour, 2004). Les acquis des sciences cognitives de ces deux dernières décennies et dans lesquelles s'inscrivent les neurosciences, permettent pour la première fois dans notre histoire, d'avancer des explications plausibles (et scientifiquement testables) pour la survenance de phénomènes mentaux. Nous pensons que la gouvernance – fut-elle organisationnelle ou sociale et politique – ne pourra faire longtemps l'économie de telles connaissances ou avancées, pour guider, orienter et satisfaire au mieux les individus qu'elle a en charge. Nous proposons dans ce travail de présenter rapidement les fondements de la gouvernance, tels qu'appréhendés par des gestionnaires et mercaticiens, et d'indiquer les promesses et espoirs suscités par la révolution cognitive mais aussi les raisons des oppositions et hostilités encore vives dans certaines disciplines des Sciences Humaines et Sociales (SHS), pour pouvoir ensuite introduire et présenter de brefs exemples susceptibles d'illustrer la diffusion grandissante des préceptes neuroscientifiques dans l'ensemble des SHS. Dans une section finale, nous discuterons des limites inhérentes à de nouvelles pratiques qui renouvellent la vision du monde vivant.

### 1 – La gouvernance et ses fondements

*« Avec la fin de la guerre froide le concept de gouvernance s'est substitué à celui de gouvernabilité ». Il a été défini comme le remodelage ou la réinvention de la gestion publique, dans le sens large du terme, pour faire face aux nouveaux défis du développement à l'ère de la globalisation. La gouvernance aborde maintenant les questions reliées aux mécanismes nécessaires à la négociation des différents intérêts dans la société. Elle est de plus en plus perçue comme un concept englobant une série de mécanismes et de processus susceptibles de maintenir le système, de responsabiliser la population et de faire en sorte que la société s'approprie le processus »* (Agence canadienne de développement international).

Cette Agence utilise le terme de bon gouvernement et définit le concept comme suit : *« On entend par bon gouvernement la façon dont un gouvernement gère les ressources sociales et économiques d'un pays. Le bon gouvernement (ou la saine gestion des affaires publiques) désigne un exercice du pouvoir, à divers échelons du gouvernement, qui soit efficace, intègre, équitable, transparent et comptable de l'action menée »*. Comme l'indique Dany-Robert Dufour, *« les notions de 'gouvernement' et de 'gouvernance' tendent donc à s'opposer : le terme 'gouvernement' est réservé à l'ancien pouvoir hiérarchique, à l'autorité de l'État et aux conceptions centralistes alors que la 'gouvernance' suggère une nouvelle modalité, horizontale, de gestion du pouvoir »* (Dufour, 2009 ; 41).

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<sup>97</sup> Saltationisme : théorie selon laquelle l'évolution s'effectue exclusivement par saltations successives.

Gérer au mieux et exercer le pouvoir de manière efficace suppose de connaître, comprendre ses concitoyens ou salariés, voire de prévoir ou prédire leurs attentes et comportements. Dès lors, et les auteurs classiques, chinois ou florentins, en sont la preuve, gouverner et gérer implique une maîtrise de la psychologie humaine. Partant de cette conviction, les dirigeants, stratèges et autres managers du XXI<sup>e</sup> siècle éprouveront nécessairement une attention croissante à l'égard des neurosciences cognitives et affectives.

Les pouvoirs publics ont commencé à témoigner un certain intérêt pour les sciences cognitives à partir des années 1980. L'émergence de techniques d'imagerie permettant l'étude non invasive du cerveau *in vivo* a renforcé cet intérêt de manière plus spécifique et concrète. En outre, la prise de conscience du vieillissement de la population des pays industrialisés, s'accompagnant de troubles et de pathologies mentales (Alzheimer, Parkinson, Huntington etc.) que l'espérance de vie autrefois plus limitée occultait, n'est pas étrangère à l'intérêt en question<sup>98</sup>. En France, certains experts estiment que la population de seniors manifestant des troubles mentaux, voire des démences, dépasse le million d'individus (dont environ 600.000 Alzheimer et 200.000 Parkinson<sup>99</sup>). Ce nombre ne peut que s'accroître. Le 17 juillet 1990, le président américain George Bush Sr. a décrété « la décennie du cerveau », inaugurant une série de multiples initiatives, subventions et financements de centres de recherches dans tout le pays. Des fondations ont été créées pour sensibiliser le public et initier de nouveaux programmes de recherche. En France, le centre NeuroSpin était inauguré à Orsay le 24 novembre 2006 ; il abrite sur 11.000 mètres carrés plusieurs scanners de forte puissance ayant nécessité un investissement de 51 millions d'euros.

L'accessibilité grandissante à ces nouvelles techniques, son appropriation par les pays émergents, la croissance exponentielle des publications scientifiques mondiales ont conduit les neurosciences à une certaine prééminence parmi les autres sciences de la vie.

## 2 – Des résistances farouches (et des conversions massives ?)

En 2002, Maldamé s'interrogeait sur la pertinence d'une crainte des sciences cognitives, fondée selon lui par le fait que « la méthode réductionniste des sciences [puisse] s'emparer d'un domaine qui leur était jusqu'alors inaccessible, l'esprit humain » (Maldamé, 2002 ; 51). Le fait d'étudier scientifiquement l'esprit humain – les sciences cognitives ou les neurosciences préféreront le terme de conscience – peut susciter en effet des réactions irrationnelles, similaires à celles provoquées par la transgression d'un tabou, tel que le blasphème ou la négation déiste. Car « ravalé » l'Homme au rang d'animal dans une logique biologique et évolutionniste (autrement dit le placer à sa juste position dans l'Evolution), c'est lui dénier toute spécificité, tout caractère unique justifiant un complexe de supériorité et une large autosatisfaction. Pourtant, il y a probablement moins de 30.000 ans – un instant à l'échelle géologique – l'homo sapiens cohabitait avec d'autres espèces d'hominidés.

La défiance voire le rejet de la biologie ou de la nature dans les SHS pour appréhender des phénomènes humains et sociaux provient d'après Pinker (2006), du modèle standard des sciences sociales (MSSS), largement majoritaire encore aujourd'hui. Steven Pinker, neurolinguiste à Harvard, conteste fortement ce modèle, qui repose essentiellement selon lui

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<sup>98</sup> En 2003, 16,1% de la population française avait 65 ans et plus. Les seniors représenteront 20,9% en 2020 et 28% en 2040. Le corollaire en est l'apparition plus fréquente de maladies chroniques (Alzheimer, Parkinson etc.), entraînant une croissance des prescriptions médicales et des coûts induits. A titre d'exemple, les seniors américains, qui représentent 14% de la population, bénéficient de 43% des ordonnances prescrites. D'après le Haut Conseil de l'assurance maladie, « un petit nombre de personnes protégées concentre sur leur tête une forte majorité de dépenses : 5 % des personnes font 51 % de la dépense – soit, par tête, 18 000 € en 2000 – et de l'ordre de 60 % des remboursements. Parmi elles, près de 65 % sont en affections de longue durée (ALD) ».

<sup>99</sup> Source : Laboratoire de Neuropathologie Raymond Escourolle Hôpital de la Salpêtrière, Paris.

sur trois postulats erronés : (1) la primauté de l'acquis qui pose que l'apprentissage est la source essentielle de toute connaissance et de tout comportement, (2) la nature intrinsèquement pacifique de l'homme qui est uniquement pervertie par les institutions sociales et (3) l'épistémologie dualiste qui suppose implicitement que physiologie et phénomènes psychiques sont des éléments distincts, bien que possiblement associés (pour un développement, Rouillet et Droulers, 2009). De ces trois croyances du modèle standard succinctement résumées et de la réticence à une certaine « naturalisation », découlent occasionnellement des oppositions entre sciences sociales et sciences de la nature.

Des travaux en nombre croissant contredisent ou du moins relativisent considérablement ces postulats pourtant pérennes dans certaines disciplines ou courants. Pour le premier postulat, on sait que le génome recèle plusieurs prédispositions tempéramentales et comportementales (généralement conditionnées par la survenance de facteurs environnementaux idoines), que l'on constate précocement chez le nouveau-né (appréhension de lois physiques et arithmétiques par exemple), ce qui a été conforté par des études longitudinales chez de vrais jumeaux. Quant au second postulat, des chercheurs (zoologues ou éthologues) d'inspiration évolutionniste, considèrent que la Nature n'est ni bonne ni mauvaise en soi. Les espèces s'y plient ou périssent ; et pour ce faire, elles doivent parfois faire des choix « altruistes » pour leurs congénères mais « égoïstes » ou « cruels » pour d'autres espèces concurrentes, présentes dans les mêmes niches écologiques. Enfin, le troisième postulat dualiste a subi les coups de boutoir des sciences cognitives et neuroscientifiques qui ont amassé en une vingtaine d'années des faisceaux concordants d'évidences et de preuves qui indiqueraient fortement une identité du corps et de l'esprit, tant dans des contextes pathologiques (ou traumatiques) que normaux.

Compte tenu des progrès accomplis en l'espace de deux décennies dans le domaine des sciences cognitives, va-t-on donc assister à des « conversions épistémologiques » en masse, en particulier parmi les chercheurs en Sciences Humaines et Sociales ? Car l'adhésion aux techniques et aux raisonnements des neurosciences implique un changement radical d'épistémologie, voire de philosophie... On peut en effet évoquer le terme de « conversion » car les tenants des neurosciences sont majoritairement matérialistes et monistes et leur épistémologie est plutôt néopositiviste, voire néo-moderne, tandis les chercheurs en Sciences Humaines et Sociales sont parfois dualistes, souvent constructivistes et holistes, voire relativistes et post-modernes (Rouillet, 2005). Dans certaines disciplines (économie, marketing, éducation, communication, philosophie etc.), des chercheurs prônent a minima une écoute attentive du discours neuroscientifique ou a maxima, l'appropriation du paradigme.

Malgré les éléments scientifiques évoqués *supra*, d'irréductibles oppositions – fondées souvent sur des principes idéologiques ou philosophiques décrits *supra* – dénie toute vertu à l'approche neuroscientifique dans le domaine des SHS et encore moins dans le domaine social et celui de la vie citoyenne ou politique (Parlebas, 2007). Ces positions quelque peu dogmatiques laissent entrevoir une certaine ignorance des publications neuroscientifiques (on le comprend aisément lorsqu'on réalise que des centaines de revues académiques publient chaque année plusieurs milliers d'articles relatifs à des processus cognitifs ou des travaux d'imagerie), de leur portée épistémologique et des progrès spectaculaires obtenus depuis 20 ans, progrès apportés dans la compréhension même – et pas seulement des phénomènes biochimiques – des processus cognitifs et métacognitifs et de leur « logique » interne.

Pourquoi donc les neurosciences seraient-elles les nouvelles mannes des humanités ? Brièvement, nous dirons que les neurosciences cognitives et affectives apportent aux SHS des cadres théoriques, i.e. des modèles explicatifs et prédictifs, qui s'inscrivent dans une logique évolutionniste, vérifiable et réfutable. Plus concrètement, les techniques actuelles d'imagerie cérébrale fonctionnelle répondent précisément au problème de la mesure objective (i.e. sans



perturbation de l'observateur ou de l'instrumentation), constatée dans d'autres disciplines (sciences humaines ou sociales), dont la marketing et les sciences de gestion en particulier et ce, depuis leur origine (Droulers et Rouillet, 2007). Il convient néanmoins d'explicitier cette approche qui consiste à « s'approprier un paradigme », tel qu'il est préconisé par certains d'entre nous. Comme nous l'avons indiqué par ailleurs, « *nous pensons que l'importation, l'appropriation, du paradigme neuroscientifique en sciences de gestion, génère plus d'avantages que de contraintes pour le chercheur. De manière encore plus spécifique, la recherche en comportement du consommateur, aurait tout à gagner en mutant vers une neuroscience du consommateur, qui aurait à la fois l'ambition de décrire et d'expliquer les processus mentaux, affectifs et cognitifs, du consommateur, c'est-à-dire de l'individu placé dans des contextes d'évaluation et de choix commerciaux, et celle de contribuer à l'avancement des (neuro)sciences cognitives sociales* » (Rouillet et Droulers, 2009). Il ne s'agit donc pas dans notre esprit de « picorer » ici ou là, à son gré, des concepts purement formels ou des terminologies neuroscientifiques pour les recréer ou les « relooker » sous des atours managériaux. Cette pratique serait inepte et par conséquent condamnable comme furent exposés et condamnés certains excès du culturalisme ou de la sociologie des sciences (Cf. Sokal et Bricmont, 1997). Nous pensons qu'il est utile de rappeler dans une section suivante, pour la poursuite logique de l'argument, quels sont les éléments, facteurs ou croyances qui fondent les neurosciences et leurs paradigmes.

### **3 – De nouvelles lectures théoriques et des éclairages nouveaux**

Le paradigme des neurosciences repose sur quelques concepts fondamentaux que nous proposons de rappeler brièvement. En effet, le recours au cadre théorique des neurosciences ainsi qu'aux techniques d'imagerie cérébrale implique, par pure cohérence épistémologique, une adhésion à ses postulats principaux. Nous pouvons brièvement mettre en avant les points suivants, qui avaient été soulignés précédemment par Ilardi et Feldman (2001) :

(a) notre cerveau et les cognitions qui lui sont associées sont le produit d'une évolution phylogénétique, d'un façonnement de plusieurs dizaines de millions d'années. Les fonctions ou capacités cognitives humaines (telle que la « théorie de l'esprit » - capacité à inférer une intentionnalité chez autrui – par exemple) ne peuvent être pleinement appréhendées que dans un contexte évolutionniste.

(b) il y a identité entre événements psychiques et événements neuronaux ; tout événement mental survient en tant que résultat d'un traitement neural de l'information ; la conscience émerge d'un processus complexe d'interactions entre le cerveau et le reste du corps, dont les états sont représentés neuralemment. Une majorité des chercheurs en neurosciences adhère à une posture matérialiste moniste, déclarée ou non.

(c) tout comportement humain explicite est la résultante d'une intentionnalité, générée dans le système nerveux central : il n'y a pas de « causalité mentale », comme antécédent ultime ; le traitement de l'information dans le système nerveux central s'opère au travers de réseaux neuronaux, hiérarchiquement organisés et interconnectés.

(d) le génome humain, (environ 20.000 gènes codants), semble recéler les « plans » d'un pré câblage neuronal pour les grands modules cognitifs pilotant des fonctions affectives et cognitives. Les gènes semblent conduire à certaines prédispositions (tempéramentales et comportementales), cependant conditionnées par la survenance (ou non) de facteurs environnementaux.

La diffusion grandissante des paradigmes décrits *supra* dans les SHS est d'autant plus compréhensible que les neurosciences cognitives et affectives ont effectivement produit ces dernières années, un corpus de nouvelles connaissances, qui corrigent, infirment, remodelent

ou valident des théories existantes. Nous présenterons ci-après – sans souci d'exhaustivité, qui exigerait un espace plus conséquent – quelques brefs exemples dans différentes disciplines. Une majorité des études furent pratiquées à l'étranger. En effet, des réticences épistémologiques, associées à des réglementations particulières en France favorisant des protocoles et des finalités cliniques, obèrent nombre de recherches en SHS.

### **3.1. Psychologie générale**

De manière quasi-filiale, la psychologie s'est ressourcée auprès des sciences cognitives et des neurosciences cognitives en particulier. Les exemples de réappropriation de concepts revisités seraient nombreux. Toutes les grandes cognitions de « niveau supérieur » ont été revisitées : perception et catégorisation, langage, mémorisation, perception du temps, évaluation et prise de décision etc. Ainsi, des phénomènes mentaux apparemment aussi disparates (et jugés autrefois inexpugnables) que l'amour filial, la foi religieuse, l'empathie, l'altruisme ou la morale, ont été approchés et traités scientifiquement dans un passé récent.

De manière très notable, l'émergence des neurosciences et de leurs techniques a également permis la « redécouverte » - et le réexamen attentif – des phénomènes affectifs, longtemps négligés par le fonctionnalisme cognitif et le rationalisme, position dominante dans les théories économiques néo-classiques, mais aussi par le marketing et la recherche en comportement du consommateur qui jugeaient inutile jusqu'aux années 1980 l'étude des émotions, présentes ou suscitées chez le consommateur. Aujourd'hui les neurosciences affectives constituent une discipline *per se* et contribuent de manière significative à la compréhension de la complexité humaine. Des régions cérébrales diverses sont impliquées dans toute expérience émotionnelle : le cortex orbitofrontal, l'insula, le cingulum antérieur, le cingulum postérieur et les amygdales. Le cortex préfrontal correspond au contrôle volontaire du comportement, tandis que l'insula donne les informations touchant à l'état contemporain du corps (viscères, muscles, articulations et tendons). Le cortex cingulaire participe à la prise de conscience de l'état corporel, alors que les amygdales relient la perception actuelle à des mémoires et des réponses émotionnelles automatiques. Mais les neurosciences (et les sciences cognitives de manière plus générale) ont renouvelé également le réexamen de plusieurs concepts ou construits, véritables piliers de la psychologie centenaire. On peut citer les concepts ou construits de croyance (Goldman, 2005), de dissonance cognitive (Sharot *et alii*, 2009), de rappel ou d'oubli mémoriel (Wixted, 2004), d'image corporelle (Holmes et Spence, 2004), d'intentionnalité voire de métacognition (Uddin *et alii*, 2007).

### **3.2. Sciences de l'éducation**

Un exemple possible de la défiance envers un éclairage neuroscientifique du développement humain (et de sa disqualification en matière sociale) est celui de la polémique récente en France, concernant (dans le cadre d'une loi de prévention de la délinquance) la recommandation d'un possible suivi de jeunes enfants, manifestant dès l'âge de 3 ans un syndrome d'hyperactivité et de troubles de l'attention<sup>100</sup> (ADHD ; *Attention deficit hyperactivity disorder*). Différentes instances publiques, politiques, syndicales ou citoyennes se sont émues du projet et l'ont condamnée pour cause de déterminisme génétique déguisé voire d'eugénisme rampant. Des partisans d'une « éducation nouvelle » - en la personne du président des Ceméa – indiquèrent par exemple que « *des courants conservateurs se*

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<sup>100</sup> « Trouble Déficit de l'Attention / Hyperactivité » ou « Trouble hyperactif avec déficit de l'attention » (Charfi & Cohen, 2005) ou encore « Troubles attentionnels avec hyperkinésie » (Guilé, 2004). En Espagne, « Trastorno por Déficit de Atención con Hiperactividad » (TDAH; López Villalobos *et alii*, 2005). Un colloque récent s'est tenu sur le sujet le 22 septembre 2009 au ministère de la santé en France (2ème Semaine Européenne du TDAH, colloque placé sous le Haut Patronage du Ministère de la Santé et des Sports).

*retrouvent presque toujours du côté des tenants de l'hérédité génétique* » [...] « *cet accent mis sur l'hérédité et sur l'héritage, conduit à un conservatisme social qui classe les individus selon leur patrimoine génétique ou culturel* » [...] « *c'est le refus de considérer a priori que les turbulences d'un enfant de 3 ans assignent celui-ci à une trajectoire qui le conduira inéluctablement à la délinquance. Non, tout n'est pas joué à la naissance !* » (Parlebas, 2007 ; 128-129). Après de telles déclarations définitives, tenter d'apporter la moindre correction ou nuance au jugement risque de passer précisément pour une initiative réactionnaire. Bien sûr, tout n'est pas joué à la naissance mais l'on sait également que certaines prédispositions génétiques, alliées à des facteurs épigénétiques et environnementaux peuvent conduire à des dysfonctionnements cérébraux, facilitant ou désinhibant des troubles comportementaux ou des actes asociaux<sup>101</sup>. Ecarter la réalité des statistiques ou déclarer « qu'il faut bien que jeunesse se passe » serait une bien mauvaise gouvernance sociale, car « *contrairement aux croyances précédentes, il est devenu clair que dans la plupart des cas, le trouble ADHD ne se résout pas à l'orée de la puberté* » (Wolraich et alii, 2005; 1734). En outre, « *un nombre disproportionné d'individus atteints de ADHD sont surreprésentés dans la population carcérale des jeunes et des adultes* » (Barry et Gaines, 2008). Une étude longitudinale menée durant dix ans auprès de 140 enfants diagnostiqués ADHD (vs. 120 enfants sans trouble) semble indiquer que « *au début de leur vie d'adultes, les jeunes patients ADHD présentaient un risque élevé pour un large éventail d'effets psychiatriques indésirables incluant des taux accrus de troubles de l'humeur et de l'anxiété, des comportements antisociaux, et des risques de dépendance toxicologique* » (Biederman et alii, 2006). « *Bien que les conséquences de ce trouble et l'influence de l'échec scolaire et de la déscolarisation sur l'insertion sociale et professionnelle soient bien connues, de même que le risque de délinquance et d'addiction à l'âge adulte, il n'existe aucune disposition institutionnelle actuelle en matière de santé pour les personnes atteintes de TDAH qui subissent cette situation sans pouvoir bénéficier des soins appropriés* » déplore localement une association de patients française<sup>102</sup>. Il semble clair que quelle soit la position idéologique d'un gouvernement, de telles données doivent être intégrées dans une réflexion plus générale et à visée prophylactique.

Une autre illustration de l'apport neuroscientifique positif pour les sciences de l'éducation est l'apport récent des éléments nourrissant le débat relatif à la maîtrise de l'écriture ou du calcul dans les écoles élémentaires. On sait que certaines dyslexies ou dyscalculies ont des origines cérébrales (des dysfonctionnements neuronaux / synaptiques d'origine génétique et/ou épigénétique) et la compréhension biologique des mécanismes du langage ou du calcul (précis ou approximatif) a réellement progressé, ce qui donne l'espoir à terme d'émettre de nouvelles préconisations quant à la pertinence des diverses méthodes d'apprentissage. A condition, toutefois, comme le soulignent Varma, McCandliss et Schwartz (2008) qu'une authentique collaboration s'instaure entre les deux disciplines et que des thèmes sérieux et précis d'étude puissent être définis en commun (par exemple, l'influence des outils pédagogiques – éléments culturels – sur l'apprentissage et l'appréhension des nombres dans l'addition : de petits chinois activent leurs zones motrices lors de l'addition tandis que leurs homologues anglais activent leurs aires du langage ; le fait d'apprendre sur un boulier ou sur une feuille de papier explique probablement une partie des différences d'activation constatées ; Tang et alii, 2006).

<sup>101</sup> « La définition des troubles des conduites données par le DSM IV1 est la suivante : "ensemble de conduites, répétitives et persistantes, dans lequel sont bafoués les droits fondamentaux d'autrui ou les normes et règles sociales correspondant à l'âge du sujet". [...] Le score d'héritabilité génétique est proche de 50 %, mais le rapport de l'INSERM souligne à plusieurs reprises la multifactorialité (interaction entre gène et environnement) » (Rapport Sommelet, 2006 ; 148).

<sup>102</sup> L'association de patients 'HyperSupers TDAH France'.

### 3.3. Pédopsychiatrie

La psychiatrie, qui a longtemps appliqué le jugement de Salomon en distinguant (et cloisonnant) maladies mentales psychiques (immatérielles) et pathologies neurologiques (biologiques), s'est muée en bonne partie ces dernières années en neuropsychiatrie, qui appréhende de manière holiste les dysfonctionnements cérébraux sous-tendant des troubles du psychisme et de la cognition. Nombre de troubles psychiques semblent bien avoir un fondement biologique, issu de causes mixant des sources génétiques, épigénétiques et environnementales. C'est le cas de la schizophrénie, de la dépression profonde, du syndrome bipolaire (« maniacodépressif ») ou encore de l'autisme infantile. La pédopsychiatrie a par exemple évolué sur certaines de ses positions concernant l'autisme. Des polémiques ont émaillé les débats de ces vingt dernières années sur le sujet, du fait des forts antagonismes existant entre des théories psychanalytiques et biologiques de ce trouble du développement, plutôt qualifié aujourd'hui de spectre autistique, car recouvrant des déficits variés. En particulier, la théorie de Bruno Bettelheim – longtemps révérée et aujourd'hui rejetée – posait que l'enfant autiste « se repliait sur lui-même en résultat d'un traumatisme reproché aux parents et en particulier à la mère ». Les choses ont cependant évoluées et la discipline appréhende autrement ces troubles. Guilé concluait récemment dans son mémoire traitant de la contribution neuroscientifique à la psychiatrie de l'enfant : « *appliquées au domaine de la pédopsychiatrie, les récentes avancées en neurobiologie du développement, en génétique du comportement, en imagerie cérébrale fonctionnelle et en sciences cognitives, permettent d'accroître notre compréhension des pathologies anxieuses liées au stress et d'élargir la palette thérapeutique offerte aux troubles attentionnels* » (Guilé, 2006 ; 555).

### 3.4. Criminologie et droit pénal

On sait que le public et les médias déplorent l'accroissement de la population carcérale et plus encore, la surreprésentation de certaines catégories sociales. On souligne moins la grave surreprésentation des troubles psychiques et mentaux parmi cette même population. Ainsi, des statistiques avancent le chiffre d'au moins 50% des détenus qui présentent au moins un trouble psychique<sup>103</sup>. Naturellement, il convient de s'assurer que la cause n'est pas en fait une conséquence (que l'incarcération ne sécrète pas le trouble) ; mais les constats et les études semblent indiquer que de complexes interactions – impliquant toujours le système nerveux central – entraînent parfois des troubles du comportement voire des actes asociaux. Psychopathie, sociopathie, addictions, transgressions des normes sociales sont désormais étudiées sous l'angle neuroscientifique et génétique. Des études d'imagerie ont révélé soit des anomalies structurelles (anatomiques) soit des dysfonctionnements physiologiques impliquant certains neuromédiateurs et/ou (neuro) hormones. Depuis peu, des tribunaux américains ou indiens se sont appuyés sur des données neuroscientifiques (EEG, IRMf) pour disculper ou confondre des prévenus de crimes graves (Sapolski, 2004 ; Rosen, 2007 ; Tovino, 2007 ; Moriarty, 2008). Ainsi, des résultats d'imagerie sont utilisés dans certains tribunaux américains comme preuve admissible, tant par la défense que par le parquet<sup>104</sup>. De même, une femme indienne a été condamnée en 2008 à Mumbai pour meurtre par empoisonnement après qu'un test cérébral (potentiels évoqués) fut appliqué, dévoilant une activité cérébrale corrélant positivement avec des souvenirs de détails incriminants (Girighadaras, 2008). Enfin, on sait

<sup>103</sup> « Parmi les 2.300 entrants en détention enquêtés en juin 2001, les médecins psychiatres des services médico-psychologiques régionaux (SMPR) ont repéré au moins un trouble psychiatrique pour plus de la moitié d'entre eux. Un cinquième des détenus entrant en détention avait déjà été suivi par les secteurs de psychiatrie » (La santé mentale et le suivi psychiatrique des détenus accueillis par les services médico-psychologiques régionaux, Etudes et Résultats N° 181, DREES, 2002).

<sup>104</sup> Le 5 mars 2001 le juge de première instance Tim O'Grady (Pottawattamie County, Iowa District Court) a statué que des tests "d'empreinte cérébrale" (Brain Fingerprinting®) étaient admissibles au tribunal.

également que le ministère américain de la Sécurité Intérieure<sup>105</sup> a débuté des tests d'évaluation concernant un « détecteur de mensonges ou d'anxiété ». En effet, des techniques d'imagerie cérébrale fonctionnelle (électroencéphalographique ou métabolique) ou des techniques dites « d'empreintes cérébrales » (EEG) permettent de détecter des mensonges ou des dissimulations (qui nécessitent davantage de ressources cognitives) avec des taux assez élevés (87,5%) de réussite (Langleben *et alii*, 2002). Cependant, des chercheurs éminents<sup>106</sup>, qui considèrent que la pratique va plus vite que la recherche, apparaissent plus que dubitatifs quant à la fiabilité absolue de ces techniques (Grafton *et alii*, 2009). Sans trop s'engager sur l'avenir, il est possible de prévoir des évolutions significatives de la jurisprudence du fait des progrès neuroscientifiques, à l'instar de la révolution ADN des années 1980.

### 3.5. Sociologie et psychologie sociale

La sociologie classique n'a pas vécu sa révolution cognitive, à l'instar de la psychologie générale à la fin des années 1950 : elle est restée proche du béhaviorisme, selon lequel on considère que seul l'environnement forge des cultures par le truchement d'apprentissages sociaux (i.e. des conditionnements) en l'absence de toute faculté préexistante. Cette position encore majoritaire – la culture est ontologiquement distincte et autonome du biologique – est désormais contestée par certains chercheurs car elle soutient des thèses de plus en plus controversées. Depuis Durkheim, des auteurs en sociologie considèrent en effet qu'il existe une discontinuité infranchissable entre le psychologique (le biologique aujourd'hui) et le social, de même qu'il existait au XIXe siècle une insurmontable barrière entre l'inanimé et le vivant (Bronner, 2006). A l'époque, vitalisme ou éther cosmologique étaient des solutions *ad hoc* pour expliquer des données irréconciliables en biologie ou en cosmologie. Une autre grille de lecture – à un niveau d'analyse différent – était donc indispensable selon Durkheim. L'analogie avec la chimie organique incapable d'expliquer la vie – « l'argument d'incompétence » (Bronner, 2006 ; 333) – est cependant peu acceptable aujourd'hui et cette discontinuité (« *la cause déterminante d'un fait social doit être cherchée parmi les faits sociaux antécédents, et non parmi les états de la conscience individuelle* » ; Durkheim, 1919 ; 135) semble plus difficile à justifier, sans inférer des entités immatérielles ou des concepts réifiés<sup>107</sup> qui semblent parfois relever de l'animisme, souvent de la « biophobie » comme certains sociologues l'ont déploré (Freese, Allen Li et Wade, 2003). Mais cette posture épistémologique qui pose qu'équivaloir un homme à un cerveau est une « individuation » réductrice (Andrieu, 1999) et donc une perte de sens, s'apparente en fait à un dualisme implicite, voire à une quête de transcendance (Poirel, 2005). Dans une posture matérialiste moniste, une « personne » est son cerveau (il est l'acteur social), tout en conservant l'intégralité de sa richesse et de sa complexité. Le supplément d'âme est ici superfétatoire.

La sociologie, donc connaît des débats – parfois vifs – où des concepts emblématiques sont là aussi réexaminés à la lumière d'autres paradigmes. Ainsi, Freese, Allen Li et Wade (2003) dans la revue annuelle de leur discipline, tentent de sensibiliser leurs collègues en rappelant

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<sup>105</sup> Thomas Frank, Anxiety Detecting Machines Could Spot Terrorists, USA TODAY, Sept. 18, 2008. Des informations officielles sont accessibles à : [http://www.dhs.gov/files/programs/gc\\_1218480185439.shtm](http://www.dhs.gov/files/programs/gc_1218480185439.shtm).

<sup>106</sup> En particulier Michael Gazzaniga, professeur de psychologie à l'Université de Californie (Santa Barbara), où il dirige le nouveau centre SAGE pour l'étude de l'esprit. Il dirige également la fondation MacArthur pour le Projet Loi et Neurosciences (Law and Neuroscience Project), projet visant à étudier les points de chevauchement entre le droit et les neurosciences.

<sup>107</sup> Gabriel Tarde disait pourtant à la même époque : « *En matière sociale, on a sous la main, par un privilège exceptionnel, les causes véritables, les causes individuelles dont les faits sont faits, ce qui est absolument soustrait à notre regard en toute autre matière* » (Tarde, 1890 ; 2). Ce qui ne l'empêchait pas d'être hostile au réductionnisme puisqu'il considérait que l'on pouvait se passer des « *causes, dites générales, que les physiciens et les naturalistes sont bien obligés de créer sous le nom de forces, d'énergies, de conditions d'existence et autres palliatifs verbaux de leur ignorance du fond clair des choses* » (Tarde, 1890 ; 2).

des fondements épistémologiques qui renouvelleraient l'approche sociologique : le passé évolutionniste de l'homme, la réalité de différences génétiques entre individus, et l'influence diffuse de facteurs biologiques (étudiés par la neurophysiologie et la neuroendocrinologie) sur les cognitions et comportements. Leurs collègues de psychologie sociale ne disent pas autrement en ajoutant que l'imagerie et la localisation cérébrale peuvent être des atouts précieux pour leur réflexion disciplinaire, sans pour être autant les seules sources de progrès (Willingham et Dunn, 2003). D'autres renchérissent en déclarant : « *en d'autres mots, même si les techniques d'imagerie cérébrale nous révèlent seulement la localisation d'une tâche cognitive en cours, elles ont néanmoins la capacité de nous informer des modèles psychologiques existants, relatifs à l'attribution d'états mentaux* » Mason et Macrae (2008 ; 225).

### **3.6. Sciences politiques**

Les sciences politiques et les neurosciences ont été médiatiquement associées lorsque des études d'imagerie cérébrale furent menées aux Etats-Unis auprès de militants républicains ou démocrates, à qui l'on présentait des visages de candidats conformes ou non à leur conviction politique. Le terme de neuropolitique allait être rapidement forgé (Connolly, 2002). De manière plus générale, les prises de décision politiques sont examinées *in vivo* auprès de citoyens (volontaires) observés dans des scanners IRMf (Tingley, 2006). Des premières tentatives furent menées en 2004 dans le cadre de coopérations entre un cabinet d'études (*FKF Applied Research*) et un laboratoire universitaire américain (*Ahmanson-Lovelace Brain Mapping Center* à UCLA). Au cours des primaires de la dernière campagne de l'élection présidentielle américaine, l'activité cérébrale d'électeurs a été enregistrée lors du visionnage de spots télévisés, promouvant Hillary Clinton ou Barack Obama. Les réactions émotionnelles étaient scrutées en fonction de chaque thème abordé pour évaluer leur valeur intrinsèque. Rapidement, des chercheurs ont donc compris l'enrichissement possible de leur discipline, en particulier en intégrant les affects (états émotionnels) qui jusqu'alors étaient considérablement minorés ou négligés dans les modèles de décision rationnelle (McDermott, 2004 ; Knutson *et alii*, 2006). Rose McDermott, professeure de sciences politiques à l'Université Brown développe la thèse de la collaboration entre les deux disciplines, en précisant que de nombreux thèmes de recherche au sein des neurosciences cognitives et de la génétique comportementale « *sont familiers des chercheurs en sciences politiques, thèmes qui incluent les préjugés raciaux, la votation, la coopération et le conflit, l'agression, la formation et la conservation de coalitions, la dominance et les statuts hiérarchiques et les origines des attitudes et comportements sociaux et politiques* » (McDermott, 2009 ; 571). En France, Mayer (2007) indique : « *l'essor de la psychologie cognitive va conduire à reconsidérer la manière dont l'électeur se repère dans le champ politique, rejetant tant la conception minimaliste que la vision instrumentale [...] de certains modèles explicatifs du choix électoral* », en poursuivant plus loin : « *les travaux récents inspirés par les neurosciences réévaluent également le rôle joué par les émotions dans les choix politiques* ». Ce à quoi adhère McDermott quand elle écrit : « *étant donné la contribution centrale des sciences politiques à l'étude du comportement humain, une véritable opportunité serait perdue si les principales avancées de ces prochaines décennies dans le domaine s'accomplissaient en dehors du champ des sciences politiques et sans leur implication* » (McDermott, 2009 ; 572).

### **3.7. Etudes du genre (gender studies)**

Les *gender studies* sont très politisées aux Etats-Unis et restent un sujet sensible car les mouvements féministes ont un poids significatif sur certaines disciplines des sciences humaines et sociales. Les postures dominantes consistent à dire – en partie pour de justes et

respectables raisons d'égalitarisme et d'équité – que les principales différences constatées entre sexes – hormis les plus évidentes morphologiquement et physiologiquement parlant qui ne peuvent être écartées d'emblée – sont dues à des apprentissages culturels qui favorisent le dimorphisme et la sexuation des attitudes et des comportements. Autrement dit, une petite fille jouera à la poupée parce qu'on lui inculque (pression sociale oblige) la notion de jeu féminin. Les neurosciences ont bouleversé ces notions quelque peu artificielles en apportant des évidences qui suggèrent des différences cognitives et affectives entre sexes, pour le plus grand enrichissement de notre espèce. Ainsi, les représentations mentales d'objets tridimensionnels, les réactions affectives au stress (Buchanan et Tranel, 2008) et la régulation émotionnelle, les largeurs lexicales, les jugements esthétiques (Cela-Conde *et alii*, 2009), l'inhibition des représentations alimentaires (Wang *et alii*, 2009), l'aversion au risque financier (Sapienza *et alii*, 2009), les mémorisations émotionnelles ou spatiales, la sensibilité à des hormones ou phéromones (ocytocine, vasopressine, cortisol, testostérone etc.) ne sont que des brefs exemples à la fois d'études d'imagerie cérébrale fonctionnelle et d'études plus classiques en neuroendocrinologie ou biologie comportementale, qui semblent indiquer des dimorphismes structurels et/ou fonctionnels. On imagine aisément qu'une saine gouvernance – sociale ou managériale – serait bien inspirée de prendre en compte ces éléments pour mieux appréhender les rapports hommes/femmes.

### **3.8. Philosophie et éthique**

La neurophilosophie en tant que telle remonte à une vingtaine d'années (Churchland, 1989) et la neuroéthique fit son apparition il y a quelques années seulement. La neurophilosophie fait référence à deux approches méthodologiques distinctes et complémentaires : résoudre des problèmes de la philosophie de l'esprit à l'aide empirique des neurosciences et clarifier / interpréter les résultats neuroscientifiques à l'aune de la philosophie des sciences. Les sciences cognitives ont peut-être vocation à fédérer ces disciplines parfois éloignées (Tiberghien, 2007). Le terme de neuroéthique a été proposé il y a quelques années (Farah, 2002 ; Foster, Wolpe et Caplan, 2003) et il est susceptible de revêtir plusieurs acceptions. Une acception de cette neuroéthique a pour synonyme l'éthique des neurosciences, à savoir l'interrogation morale quant à l'usage, l'interprétation et l'instrumentalisation des techniques neuroscientifiques. Trois grands thèmes sont susceptibles d'être questionnés par la neuroéthique : les stimulants pharmacologiques (de fonctions cognitives ou végétatives), les interventions judiciaires comme par exemple les décisions jurisprudentielles fondées sur des réponses d'un système nerveux évoquées *supra* ou encore les injonctions de traitement thérapeutique et enfin la « lecture de cerveau » (*brain reading*), c'est-à-dire le décryptage et l'interprétation de phénomènes mentaux par le truchement des techniques d'imagerie cérébrale fonctionnelle. Le troisième volet concerne naturellement toutes les SHS et suscite toutes les inquiétudes. Décryptage et interprétation signifient ici la possibilité d'identifier en temps réel la nature des cognitions en cours chez un sujet : penser à un être cher, imaginer un visage ou un objet manufacturé, simuler un geste technique etc. (Norman *et alii*, 2006 ; Kay *et alii*, 2008). De nouvelles techniques de traitement du signal IRM (le traitement statistique de patterns généraux d'activation cérébrale ; MVPA) permettent « d'apprendre » puis de repérer et décrypter rapidement des profils d'activité cérébrale dénotant telle ou telle reconnaissance (Grill-Spector et Sayres, 2008). Si les avancées technologiques et informatiques continuent à progresser à ce rythme, les instances politiques et éthiques devront se saisir de ce problème.

### **3.9. Décision, management et gestion des ressources humaines**

Dans l'organisation, la bonne gouvernance intègre la recherche du bien-être de l'individu qui en fait partie et la prévention des causes susceptibles d'altérer ce bien-être. Les gestionnaires

en ressources humaines recourent aux préceptes de la psychologie générale et de la psychologie sociale pour optimiser les rapports sociaux dans l'organisation, en encourageant les comportements grégaires et solidaires et en décourageant des propensions ouvertement individualistes, par la promotion de valeurs ou de convictions organisationnelles, supposément partagées par ses membres. Des chercheurs en management ont tenté depuis longtemps d'expliquer pourquoi certains individus faisaient montre de leadership, tandis que d'autres se satisfaisaient d'un suivisme plus confortable. Des individus recherchent le pouvoir quand d'autres le fuient. Des théories innéistes, de l'apprentissage ou de la contingence (Ericsson, Prietula, et Cokely, 2007) ont tour à tour tenté de déceler les causes de ces personnalités divergentes. L'intelligence émotionnelle et les facultés d'empathie semblent devoir figurer dans les qualités d'un « leader » (Goleman et Boyatzis, 2008). En outre, des taux supérieurs en testostérone renforcent des tendances à la dominance, tandis qu'une meilleure résistance au stress (au cortisol) est un facteur clé de la résilience. Depuis quelques années, les « suiveurs », voire les « alerteurs » (*whistle-blowers*) sont également étudiés (Schäfer, 2009) dans leur implication et leur morale au sein d'une organisation. Une étude récente semble indiquer que certains individus préfèrent des structures hiérarchisées à des structures strictement égalitaires dès lors qu'ils manifestent davantage d'aptitudes – identifiées cérébralement – en matière de sociabilité, de compassion et d'empathie pour autrui (Chiao *et alii*, 2009).

Un thème majeur des neurosciences appliquées est la neuroscience de la décision (Shiv *et alii*, 2005), qui s'efforce de comprendre et d'expliquer les mécanismes biologiques qui sous-tendent les prises de décision, en situation de risque, d'incertitude ou non. Des chercheurs – relevant de la neuroéconomie – ont étudié les substrats neuronaux des concepts économiques, telle que l'utilité attendue (Padoa-Schioppa et Assad, 2006), qui guident la nature du choix (Preuschoff *et alii*, 2006). Knutson et ses collègues ont récemment démontré que l'issue d'une délibération mentale – le choix de prendre telle ou telle décision – repose sur un subtil déséquilibre entre deux structures corticales, l'une codant l'appétence de l'utilité évaluée (circuit dit de récompense) et l'autre codant le niveau aversif des conséquences liées à une mauvaise décision éventuelle. L'activation supérieure de l'une par rapport à l'autre prédit la décision finale de l'individu (Knutson *et alii*, 2007).

Dans un contexte de mondialisation économique accrue, avec ses corollaires de stress, d'anxiété et d'incertitude face à l'avenir, éprouvés par nombres de salariés et dont les médias se font l'écho, un éclairage neuroscientifique pourrait là aussi apporter des compléments de réflexion, de compréhension et d'intuition dans un souci général de trouver des palliatifs sinon des solutions durables à ces troubles occupationnels. La gestion des ressources humaines pourrait ainsi s'enrichir de connaissances ou positions neuroscientifiques en matière d'apprentissage et de sous-performance en fonction du niveau de stress (Gilkey et Kilts, 2007), de situations spécifiques de stress (Anderson, 2008), de facteurs positifs de résilience ou de facteurs négatifs du « *burnout* » (syndrome d'épuisement cognitif et intellectuel) (Eriksson et Wallin, 2004), pour prévenir tout geste irrémédiable chez des salariés désarmés.

### **3.10. Neuromarketing et neuroscience du consommateur**

A l'instar de la nouvelle neuroéconomie, les chercheurs en marketing qui tentent de décrire, expliquer et prédire les attitudes et les comportements économiques ou commerciaux des consommateurs ont trouvé de nouvelles et fructueuses pistes d'inspiration et d'investigation (Droulers et Rouillet, 2007). Comme il a pu être développé par ailleurs, de nombreux champs d'investigation sont susceptibles d'être réexaminés : la perception du temps, les processus de décision, l'évaluation esthétique d'un produit, l'affordance (ou potentiel ergonomique) d'un produit, les processus de mémorisation et de rappel, l'impact émotionnel d'une



communication publicitaire, la localisation spatiale dans un magasin, la détection sélective d'une marque ou d'un logo saillant dans un linéaire, la sensation de foule et d'ingérence dans un espace péripersonnel (proxémique), la mémorisation implicite de stimuli périphériques et incidents, le jugement d'un prix et de son ordre de grandeur, le degré de confiance accordé à un vendeur, le degré d'affiliation affective avec une marque etc. Chacun de ces thèmes – et ils sont loin d'être exhaustifs – est susceptible d'être étudié et redécouvert au travers des découvertes neuroscientifiques récentes. D'ores et déjà, l'approche neuroscientifique a permis de faire avancer la réflexion mercatique sur plusieurs thèmes. De manière concise, on peut citer entre autres :

- Le capital de marque peut moduler le jugement gustatif objectif (McClure *et alii*, 2004)
- Des opinions apparemment communes sur des marques masquent des traitements cognitifs antagonistes (Quartz et Asp, 2005)
- Une marque préférée subit moins de contrôle exécutif qu'une marque moins connue (Schaefer et Rotte, 2007)
- L'activation la plus forte entre récompense et dégoût 'décide' de l'issue finale (Knutson *et alii*, 2007)
- Des éléments périphériques influent implicitement sur les jugements de crédibilité ou d'esthétique (Deppe *et alii*, 2007)
- La simple exposition à une marque facilite son traitement cognitif visuel ultérieur mais aussi la familiarité et la préférence perçues (Krawczyk *et alii*, 2007)

#### **4 – Des limites propres à toute révolution paradigmatique**

Les neurosciences permettent d'éclairer d'un jour nouveau les fondements et les substrats des comportements humains dans la société et l'organisation. « *La science du cerveau, dans ses relations avec le comportement, avec la vie mentale, avec la vie affective, pénètre profondément le secteur des sciences de l'homme et de la société* » (Jeannerod, 2002). On s'aperçoit parfois dans certains contextes que seules des approches « biologiques » (certains diront « comportementales »), c'est-à-dire reposant sur l'étude des cognitions humaines naturalisées, permettent l'explicitation de constats ou d'anomalies, voire le contournement de paradoxes, constatés par exemple en finance ou en gouvernance d'entreprise (Charreaux, 2005). En effet, selon ce dernier, une des voies possibles « *pour améliorer le pouvoir explicatif des théories de la gouvernance* » est une voie « *quasiment inexploree [qui] consiste à introduire dans le cadre de la gouvernance, un certain nombre d'éléments issus de la littérature comportementale et plus spécifiquement, de la recherche en finance comportementale* ». (Charreaux, 2005 ; 216). Une telle démarche, entreprise par quelques chercheurs, peut s'inspirer de « *trois courants : les neurosciences, l'apprentissage organisationnel et l'économie comportementale* » (p 216). En outre, la grande redécouverte de l'affect – l'émotion ou les passions selon les Anciens – en tant que médiateur de la cognition a permis de mener une relecture moins « rationnelle » des comportements et des décisions de nature stratégique ou managériale et d'infuser de l'émotion humaine – pourtant ubiquitaire – dans les « relations d'agence » observées dans les organisations ou sur les marchés financiers ou de biens.

Néanmoins, et ce dès l'essor des publications scientifiques à base d'imagerie cérébrale fonctionnelle, certains historiens ou philosophes des sciences se sont inquiétés des interprétations de telles images et de l'impact sociétal de telles interprétations. Des dossiers spéciaux proposés par les revues scientifiques généralistes ou plus spécialisées témoignent d'un engouement grandissant dans le grand public tant en Europe qu'aux Etats-Unis (par

exemplifié par *Cerveau & Psycho*, *Scientific American Mind*, ou *Gehirn und Geist*). Outre les interrogations purement éthiques ou philosophiques (du type : a-t-on le droit de connaître les pensées intimes de quiconque et éventuellement de changer ces dites pensées<sup>108</sup> ?), les techniques évoquées peuvent susciter des questions chez le chercheur quant à l'usage ultérieur des clichés cérébraux obtenus. Sans qu'il soit loisible ici de développer, on peut citer les interrogations actuelles qui portent sur les découvertes médicales inopinées, sur l'interprétation même de clichés découlant d'un fonctionnement biologique complexe, et sur la propriété des clichés cérébraux et leur droit d'utilisation ultérieur. Des limites plus concrètes encore viennent tempérer l'optimisme des chercheurs : l'accès parfois limité aux machines, les coûts financiers, les méthodologies complexes, les risques biologiques, la nécessité des équipes pluridisciplinaires, les contraintes administratives ou légales sont autant de freins ou d'obstacles à lever. Reste la conviction – partagée par certains d'entre nous – que la poursuite des progrès théoriques, méthodologiques et technologiques dans cette discipline naturellement transversale, rendra à moyen terme l'approche neuroscientifique, accessible, maîtrisable et incomparablement riche de résultats.

## Conclusion

La plupart des gouvernements des pays développés ou émergents ont compris l'importance des enjeux que représentent les sciences du cerveau à la fois dans un contexte académique et économique mais aussi dans un contexte politique et géostratégique. Des groupes de prospective américains, certains inspirés par E.O. Wilson,<sup>109</sup> ont même forgé le terme de NBIC (pour *Nanotechnology, Biotechnology, Information Technology & Cognitive Science*) qui illustre la prédiction d'une convergence des technologies au cours du XXI<sup>e</sup> siècle.

Les NIMH (*National Institute of Mental Health*), accompagnés de la *National Science Foundation* et de sa division « *Behavioral and Neural Sciences* » aux Etats-Unis, l'institut RIKEN au Japon, la direction Recherche de l'Union Européenne et d'autres, y compris en République Populaire de Chine et en Union Indienne, investissent de manière considérable ou promeuvent des investissements significatifs dans les laboratoires, les équipements et les personnels dédiés aux sciences du cerveau. Un clair effet de levier est donc en cours et la résultante devrait en être un redoublement des publications scientifiques qui atteignent actuellement une tendance de 2.500 articles annuels (1.700 sur l'année pleine 2008), uniquement consacrés à l'imagerie fonctionnelle de fonctions cognitives ou affectives.

A un autre niveau, plus philosophique, on pourrait inférer que la connaissance intime de l'être et de la conscience peut contribuer à l'apport de davantage de vérité et de réalité dans les appréhensions de la réalité sociale, davantage de justice (en prenant en compte les facultés ou les déficits de chacun) et par conséquent davantage de solidarité et d'équité, notions qui semblent être des pierres angulaires de la gouvernance.

Enfin, à l'heure où les religions, les idéologies, les ethnies ou les hémisphères s'opposent, une meilleure connaissance – voire la compréhension pleine à terme – du cerveau humain ne fera que prouver de manière éclatante l'unicité de l'espèce humaine, et l'universalité de ses affects et de ses cognitions, de ses espoirs et de sa compassion.

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<sup>108</sup> Cette objection majeure – régulièrement avancée par les opposants à la « déferlante » neuroscientifique – n'est pas techniquement fondée à ce jour : on ne peut pas « lire » les pensées d'un individu comme l'on feuillette un livre ou zappe une chaîne TV et encore moins induire le moindre changement (non invasivement s'entend) dans les croyances ou attitudes de l'individu en question. On ne peut cependant prédire le futur des techniques. Par contre, il semble paradoxal d'entendre cette objection dans la bouche de ceux qui défendent une forme de dualisme, du moins l'idée d'un esprit ou d'une âme qui « dépasse » le pur aspect biologique de l'être. Si l'esprit est plus que la somme de ses parties biologiques, ce supplément d'âme devrait être inaccessible à l'imagerie et donc à la manipulation éventuelle des pensées...

<sup>109</sup> Wilson, Edward O., "Consilience: The Unity of Knowledge", New York: Knopf, 1998.

Nous dirons pour conclure que les SHS et la gouvernance, vue en tant que psychologie appliquée à des contextes sociaux ou organisationnels, évolueront probablement vers une plus grande naturalisation de leurs construits et une objectivation de leurs paradigmes. En attendant, le chercheur en SHS doit sereinement faire son travail – élargir ses connaissances théoriques et empiriques et les transmettre utilement aux organisations publiques ou privées – puisque « *nul homme heureux ne saurait devenir misérable, puisque jamais il n'accomplira des actions odieuses et viles* » (Aristote).

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*Real Academia  
de Ciencias Económicas y Financieras*

*Gouvernance des organisations et biologisation des rapports  
sociaux : un enjeu du 21<sup>e</sup> siècle*

## **Biologization of Organizational Governance: a major challenge of the 21st century**

*Bernard Rouillet, Olivier Droulers & Marie-Pierre Pinto*



### Summary

- I. The breakthroughs of cognitive and affective neuroscience in the understanding of the mind
- II. Theoretical framework of HSS and its philosophical implications
- III. The neuroscience paradigm, its implications and limits
- IV. Examples of the impact of NS on HSS
- V. Avenues for the governance studies

# I - Breakthroughs of cognitive and affective neuroscience

## Reasons for neuroscience impact

- Progress of non-invasive *in vivo* functional brain imaging
- Complementary technique to lesional, intracellular and neuropsychological studies
- More performing paradigm than sheer functionalism
- Growing perceived limitations of constructivism
- Concrete evidence for theories



# Some neuroinsights...

- Affect is needed for efficient cognition
- 'Mental' (vs. neurological) illness' is often a physiological (vs. structural) problem
- Selection pressure has favored specific cognitive dispositions in both gender
- Many modules are localized in the brain but not concept-like
- Cognition is embodied (seeing is emulating and learning)
- Cognition may occur without (acquired) language
- Culture may have neural substrates (European and Chinese mental calculus; tables and abacus)
- Numerosity is a linear 3D-space
- Weirdest 'psychic' phenomena are now 'neuroexplained'
- Personality traits are favored cognitive modules
- "*Psychoanalysis may have created a misleading paradigm*" (Peter D. Kramer, clinical professor of psychiatry and human behavior at Brown University)

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# Neuroscience development in humanities and social sciences

- in political sciences (Knutson *et alii*, 2006; McDermott, 2009),
- in sociology (Freese *et al.*, 2003; Varma *et al.*, 2008),
- in education science (Goswami, 2006; Samuels, 2009)
- in economics (Camerer *et al.*, 2005; Loewenstein, 2008)
- in finance (Peterson, 2005; Sapa & Zak, 2009),
- in ergonomics (Parasuraman, 2003),
- in strategy (Barraclough, Conroy & Lee, 2004),
- in philosophy (Northoff, 2004),
- in ethics (Farah, 2005; Levy, 2008)
- in marketing (Yoon *et alii*, 2006; Lee *et al.*, 2009)

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## Established neuroeconomics or 'consumer neuroscience' academic departments

- Harvard (Boston, MA)  
(1st university in Shanghai world ranking)
- Cambridge (UK) (2nd)
- Stanford (CA) (3rd)
- University of California (Berkeley) (4th)
- M.I.T. (Cambridge, MA) (5th)
- California Institute of Technology (Pasadena) (6th)
- etc...

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## Mounting pressure on HSS

- *"Most of the issues that vex humanity daily . . . cannot be solved without integrating knowledge from the natural sciences with that of the social sciences and humanities. Only fluency across boundaries will provide a clear view of the world as it really is". (Wilson, 1998; 13)*
- *« A science of human life that ignores the brain is akin to a study of the solar system that leaves out the sun » Elliott White (1992; 1)*
- *"Despite the extraordinary advances in biology in the 20th century, along with the infusion of Darwinian theory across countless domains of human import, marketing and consumer scholars have doggedly forgotten, rejected, or ignored that consumers are biological beings shaped by a common set of evolutionary forces" Saad, 2008).*

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## II - Theoretical framework of HSS

### Social Science Standard Model (SSSM)

- The SSSM is characterized by three primary basic tenets (considered as erroneous by Pinker, 2002; 2006) which refer to precise concepts or postulates :
  - The « noble savage »
  - The « ghost in the machine »
  - The « blank slate »

# SSSM Tenet 1

(Pinker, 2002)

## ■ The Noble Savage — Jean-Jacques Rousseau

- Humans are basically good
- Evil is the result of civilization
- Opposing views: Thomas Hobbes
  - Humans have a tendency to create war with each other
  - Avoid it by surrendering to a sovereign person
- How it affects our daily lives
  - Respect natural things
  - Question things that are man-made

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# SSSM Tenet 2

(Pinker, 2002)

## ■ The Ghost in the Machine — René Descartes

- Mind and body are different
  - Body is divisible
  - Mind is indivisible
- Mind and body are combined until death
- At death the mind continues to live
- Cannot question the existence of our mind because by doing so, our minds exist
- Can question the existence of our body because we can imagine ourselves as a spirit

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## SSSM Tenet 3 (Pinker, 2002)

- **The Blank Slate — John Locke**
  - The mind is *clear* of ideas and beliefs
  - Molded by the environment and experiences
  - Each experience *shapes* whom an individual becomes
  - By changing the one's environment and experience an individual can be *shaped* into a *different* person

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## III - The neuroscience paradigm

# Neuroscience paradigm

- **Phylogenetic evolution of brain and cognition**  
→ the product of several million years of evolution
- **Full membership in primate & great ape lineage**  
→ common structures, emotions and cognitive functions ( 'noble savage')
- **Identity between mental and neural events**  
→ refutation of dualism ( 'ghost in the machine')
- **Behavior and intentionality / volition stem from the CNS** → no 'mental causality'
- **Genetically-programmed pre-wiring of brain** (for some functions) → no primacy of learned knowledge ('blank slate')

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# Epistemological resistance in HSS

- **Fears** (according to Pinker, 2006):
  - the fear of inequality
  - the fear of imperfectability
  - the fear of determinism
  - the fear of nihilism
- **Heavy investment & updating efforts**
- **Feeling of disciplinary 'invasion'**
- **Disrupting predominant ideology**

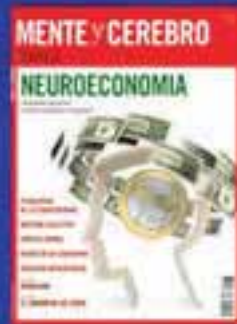
« These [biological] theories provided an important basis for the enactment of sterilization laws, and also for the eugenics policies which led to the establishment of gas chambers in Nazi Germany » (Against Sociobiology, S.-J. Gould, R. Lewontin et al., 1975)

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## Growing public awareness...

- 'Brain Awareness Week'  
or 'Semaine du cerveau'  
(March 15-21, 2010; 15th edition)

... and interest



## IV - Examples of the impact of neuroscience on HSS

# Neuroscientific framework & education science

## Attention Deficit/Hyperactivity Disorder (ADHD)

- *"ADHD is a complex condition with environmental and genetic causes. It is characterized by developmentally inappropriate levels of inattention, hyperactivity and impulsivity that has an onset in childhood".*
- *"Family studies have documented familial transmission; adoption studies show this transmission occurs through biological, not adoptive relationships; and twin studies show that ADHD is highly heritable such that genes account for about 75% of the disorder's variability in the population"*
- Faraone et al. (2005)





# Dyslexia & dyscalculia

- « *Cognitive neuroscientists monitoring brain activity with fMRI found that children with dyslexia are often unable to process the fast-changing sounds used in spoken language* » (Science Daily, 2008).
- *“Developmental dyscalculia is a specific learning disability affecting the normal acquisition of arithmetic skills. Genetic, neurobiological, and epidemiologic evidence indicates that dyscalculia, like other learning disabilities, is a brain-based disorder”* (Shalev, 2004).

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Neuroscientific framework  
&(child) psychiatry

# Autistic spectrum

- Chromosome 5; defective MEF2C gene (oct. 2009; dysfunctional synaptogenesis and memory)
- Similar genetic variations for autism and schizophrenia (oct. 2009)
- First neuroimaging study examining motor execution In children with autism reveals new insights (may 2009; conscious vs. automatic motor schemes)

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# 'Mental illness' and neurological dysfunction

- Schizophrenia
- Paranoia
- Bipolar syndrome
- Borderline personality
- Sociopathy / Psychopathy
- Pedophilia
- Bulimia / Anorexia nervosa
- Addiction (predisposition)
- 'Out-of-body' experience
- Ecstatic religious experience

lundi 12 octobre - 3 01:10 PM Structural anomalies and physiological dysfunctions ?

## Neuroscientific framework in justice, criminal law & civil regulations

### Law, Responsibility and the Brain

- *“As policy-makers seek deeper understandings of criminally violent and anti-social behavior, many contemporary neuroscientists assume that the essential ingredients of the human condition, including free will, empathy, and morality, are the calculable consequences of an immense assembly of neurons firing.”*
- *“New studies of the criminal brain are likely to shape moral views on responsibility and free will, with possible impacts on how legal systems punish and treat criminals.”*

[Mobbs et al., PLoS Biol., 2007 5 (4), 693-700].

# Legality of violent video games

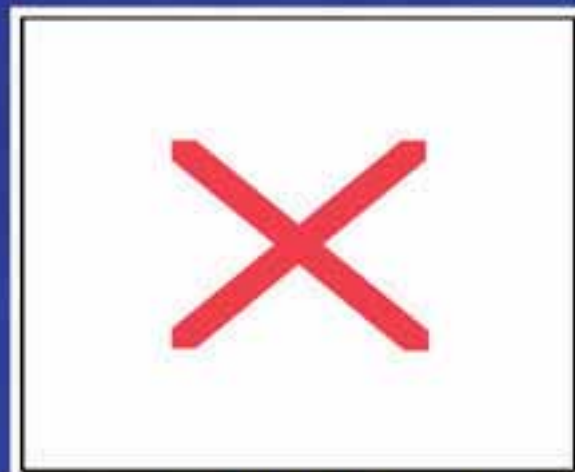
- Inbred or learned violence ?
- Official resolution from APA psychologists ( "Therefore be it resolved that APA advocate for the reduction of all violence in videogames and interactive media marketed to children and youth", 2005)
- Induced behaviors via video games (Anderson & Bushman, 2001, Funk et al., 2004, Carnagey & Anderson, 2005, Carnagey et al., 2007)
- Denegation from video game editors
- Question of legality remains unanswered

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# Lie & dissimulation

- 10 subjects are asked to lie or tell the truth about locations of specific objects
- 5 brain areas are more active during dissimulation, especially cingulum, frontal cortex and insula.



*Kozel, Padgett & George (2004)*

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# 'Brain fingerprinting'

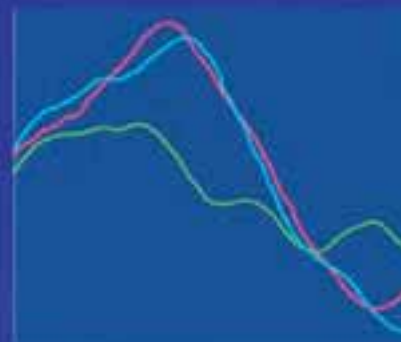
- « In June 2008, in a murder case in Pune, in Maharashtra State [India], a judge explicitly cited a scan as proof that the suspect's brain held "experiential knowledge" about the crime that only the killer could possess, and sentenced her to life in prison » (New York Times, Sept. 15, 2008).
- "Dr. Farwell testified that his test results showed that Terry Harrington, 17 at the time of the crime [1978] and had never stopped proclaiming his innocence, did not recognize details that would have been known to the murderer and did recognize those consistent with his alibi". [...] Judge Tim O'Grady of Pottawattamie County District Court became the first judge [in 2001] to consider brain-wave technology as admissible evidence. [...] On February 26, 2003 the Iowa Supreme Court has reversed the murder conviction of Terry Harrington and ordered a new trial. In October 2003, the State of Iowa elected not to re-try Mr. Harrington" (PR Newswire, Feb. 26, 2003)

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# 'Brain fingerprinting'



Innocent



Guilty

(Farah, 2005)

- Notoriously known details
- Crime scene specific details
- Irrelevant details

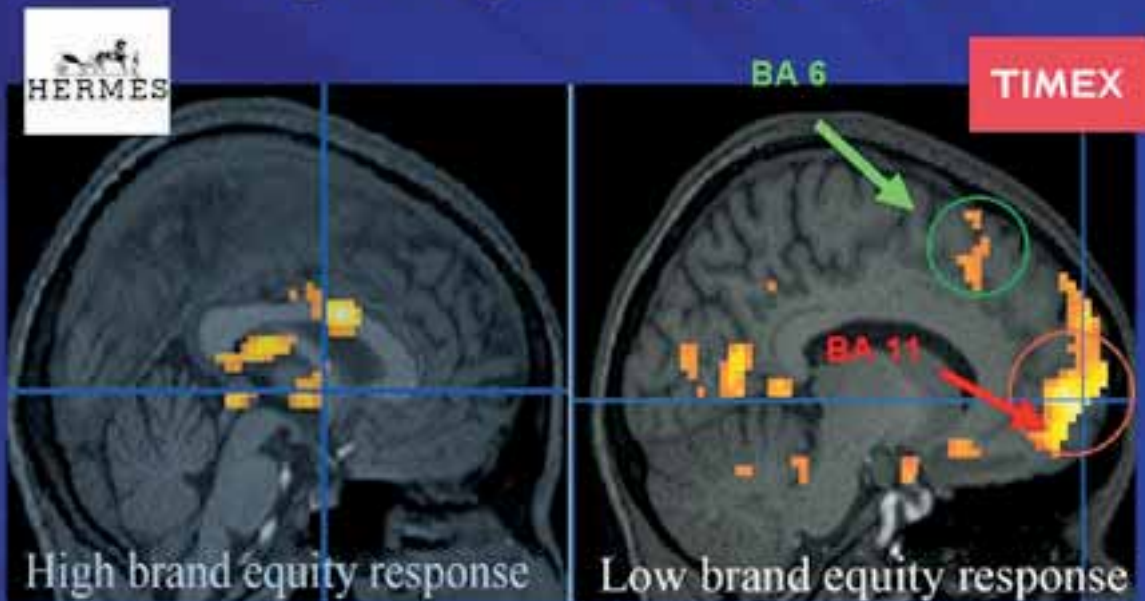
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# Neuroscientific framework in economics & marketing

## Brand equity & self-image (Quartz & Asp, 2005)

- 10 involving product categories
- 5 « high brand equity » and 5 « low brand equity » for each category
- 22 subjects aged 18 - 30
- Passive scans + « brand coolness » scale
- → Undifferentiated homogenous verbal judgments  
but ...2 cerebral typologies

## High negatives group



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# V - Avenues for the governance studies

## A few 'neurotrails'

- Substrates of 'burnout' syndrome
- Substrates of resilience
- Substrates of efficient learning
- Substrates of mental well-being
- Substrates of beliefs, taboos, obedience
- Substrates of followership and submissiveness
- Substrates of morals and altruism
- Substrates of risk aversion or risk-taking

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## Perspective and research avenues in marketing

- Facial beauty attractiveness (Johnston, 2006)
- Theory of Mind (ToM) and mirror neurons (Iacoboni & Dapretto, 2006)
- Numerosity (sense of number) (Piazza & Dehaene, 2004)
- Neuroaesthetics and design (Cela-Conde et al., 2004)
- Prediction of purchase decision (Knutson et al., 2007)... etc.

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# ***THE CHALLENGES OF LEGAL PLURALISM IN THE SOUTH PACIFIC IN THE CONTEXT OF THE GLOBALISATION OF THE TRADE, GOODS AND IDEAS***

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## **Abstract**

The legal systems of the small island states of the Pacific have to engage with modernisation in order to avoid being excluded from the globalisation movement and the indispensable development aid to which it gives access. This movement which represents the implementation of the principle of universalism has as a consequence a devaluing of social and cultural diversity. Despite the official statements of the proponents of globalisation, universalism, for legal systems as well, is far from being a unifying factor among the small island states of the South Pacific. Regarded as the corollary of an economic and cultural system which is imposed on them by the leading industrialised states, globalisation is a cause of the loss of the specific identities of the small island states and is regarded by them as a thinly disguised form of neo-colonialism.

**Key words :** Legal pluralism, South Pacific, globalisation's consequences

## **I INTRODUCTION**

At the outset, it must be recognised that the jurist or the anthropologist who is interested in the legal systems of the South Pacific could only ever hope to study some of the tens of thousands of islands of the region because the island communities of the region are geographically small and of an infinite variety.

It is possible nevertheless in an attempt to order the discussion to consider the different definitions given to legal pluralism<sup>110</sup>. This is done in order next to locate legal pluralism in the process of colonisation of the small states and island territories of the South Pacific and finally to present some views about the future.

Legal pluralism began when, at the beginning of the 20<sup>th</sup> century<sup>111</sup>, a sociologist raised the idea of pluralism in the legal sphere by affirming that "the centre of gravity of the evolution of law is not in legislation, nor in legal philosophy or judicial decision, but in society itself".

It is necessary in fact to consider the classification of social groups based on specific criteria such as:

Function (family groups, locality, followers of a chief, etc)

Duration (temporary groups or groups of a more durable nature)

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<sup>110</sup> Brian Z Tamanaha, *Understanding Legal Pluralism: Past to Present, Local to Global*, Sydney Law Review, Vol 30: 375 (2008). James M. Donovan, *Legal Anthropology: An Introduction*. Lanham, MD : AltaMira Press, 2008.

<sup>111</sup> Ehrlich E., (1912), *Grundlegung der Soziologie des Rechts*, cité par Ingber L., « le pluralisme juridique dans l'œuvre des philosophes du droit », p. 57, in Gilissen, *Le pluralisme juridique*. ROULAND Norbert, « Le pluralisme juridique en anthropologie », *Revue de recherche juridique*, no 2-1993, p. 567-571., Du meme auteur, *L'anthropologie juridique*, P.U.F., Paris, 2e éd., 1995.

Social range (specific groups or global groups)

According to Gurvitch<sup>112</sup>, each community develops social ordering systems of a legal nature which are peculiar to it. He added that “certain groups therefore lack stability or a degree of organisation which will constitute legal categories” and, in establishing the theory of legal pluralism, all thought of state centralisation of law is put to one side.

In other words “against the state presented as the sole creator of law, it is a question of presenting the multitude of social areas which of a partially autonomous or self-regulated nature, which also are producers of legal rules”<sup>113</sup>.

For Leon Ingher<sup>114</sup>, legal pluralism refers to “legal norms of a similar nature which implies the use of constraint, and which co-exists in the same area”. According to Ingher, legal pluralism finds its source notably in the inter-penetration of customary laws which results in the imbuing of the idea of the sanctity of space and of resort to tools of a legal nature”.

Etienne Le Roy<sup>115</sup> (who prefers to refer to legal pluralism as “multi-legalism”<sup>116</sup>) works a synthesis of these two definitions by describing the three pillars which according to him are the necessary foundation of the equilibrium between the state law and the law of the peoples.

First, “a recognition of the plurality of the sources of law and the effective operation of the principal of subsidiarity in so far as it relates to the state law which will not be called upon except when methods of social regulation based on negotiation have been exhausted;

Next, recognition or the putting in place of new fora for the regulation of disputes, with a preference for negotiation;

Finally, a functional specialisation of the various fora in order to avoid a pyramid effect from the systematic ascent towards a summit of decisions with authority and to promote a system of public justice which is largely decentralised”.

Beside these definitions, pluralism in a broad sense has three forms: social, political and legal. Social pluralism is referred to when “there co-exist in the same society, different value systems used by distinct groups”<sup>117</sup>.

Political pluralism relates to the recognition and accepting of the diversity of political opinions.

And finally legal pluralism has reserved for it an analogous treatment to that of existing legal methods.

It may be analysed as a situation in which different areas of law superimpose on each other, inter-penetrate and become mixed both in spirit and in action.

Introduced by the effect of colonisation, or already co-existing before colonisation, traditional law and imported law in matters “of private law, public law, judicial law (the co-existence of a principal justice and an indigenous justice of a special nature subordinate to the first), criminal law and social law”, pluralism therefore makes for the co-existence of several legal systems in the same jurisdictional entity<sup>118</sup>.

Flowing from this is an equilibrium between different social groups whose origins vary in function according to the circumstances of each case.

Jean-Guy Belley<sup>119</sup> speaks of pluralism as “multiple external normativities to the state law, phenomena which are empirically marginal and without substantial links between them - “local usages, ethnic practices, and inter-familial behaviour”.

112 Gurvitch G. (1940), *Eléments de sociologie juridique*, Paris, cité par Ingher in « Le pluralisme juridique dans l'œuvre des philosophes du droit », p. 80.

113 Dupret B., (2000), « Systèmes coutumiers, centralisme juridique de l'Etat et usages de droits », *Chroniques yéménites*, n°8, p. 3.

114 Ingher L., « Le pluralisme juridique dans l'œuvre des philosophes du droit », in GILLISSEN John (dir.), *Le pluralisme juridique*, U.L.B., Bruxelles, 1972, p. 57-84

115 Le Roy E., (2004), *Les Africains et l'Institution de la Justice, entre mimétismes et métissages*, Dalloz, p. 262.

116 Leroy E., « L'hypothèse du multijuridisme dans un contexte de sortie de modernité », in Lajoie A., MacDonald R., Janda R. et Rocher G. (éd.), *Théories et émergence du droit : pluralisme, surdétermination et effectivité*, Bruylant, Bruxelles, 1998, p. 29-43.

117 Lajoie A., (1998), « Pluralisme juridique à Kahnawake ? », *Les Cahiers de droit*, vol. 39, n°4, p. 683.

118 Vanderlinden J., (1972), « Le pluralisme juridique, essai de synthèse », dans *Etudes sur le pluralisme juridique*, Bruxelles, Editions de l'Institut de Sociologie, p. 19-56

119 Belley J.-G., (1986), « L'Etat et la régulation juridique des sociétés globales. Pour une problématique du pluralisme juridique », *Sociologie et sociétés*, vol. 18, n°1, avril 1986, p. 11-32.

He gives a double definition in his encyclopaedic dictionary of law<sup>120</sup>

“In law -

The simultaneous existence within a single legal order of rules of law which are different in their application to identical situations;

The co-existence of a multitude of distinct legal orders which may or may not have legal relationships between them;

In the sociology of law the co-existence of a plurality of arrangements or systems of law, is at the heart of a single entity of a given sociological analysis (local society, national society, international society)”<sup>121</sup>.

Jean-Guy Belley agrees with Jean Griffith<sup>122</sup> in saying that there can exist only two conceptions of legal pluralism :

- A moderate concept which relies on a positivist view of law. This conception sees the existence of distinct social powers of the state which have a coercive power which is sometimes more efficacious than its own;

- A radical conception where the rule-making power is shared between the state and other parallel legal orders. These concurrent normative systems are not in a hierarchical arrangement and the legal practices of each individual are taken into account. Different social circumstances create their own norms for the moulding of social behaviour and their own institutions to reinforce and apply those norms. Jacques Vanderlinden and Etienne Le Roy are among the most eminent representatives of this few<sup>123</sup>.

Beyond this first differentiation, lawyers and legal anthropologists have different approaches in respect of pluralist societies<sup>124</sup>.

For example John Gilissen emphasises the negotiation which arises in relation to rules, norms and laws<sup>125</sup>.

Jacques Vanderlinden is interested in the mechanisms that arise from different legal ordering systems<sup>126</sup>.

Baudoin Dubert studies the capacity for action and selection of subjects and decision-making fora. He speaks of the normative repertoire of judges<sup>127</sup>.

Carol Greenhouse prefers to emphasise the plurality of forms of regulation by reference to type class or culture in the world<sup>128</sup>. Le Roy focuses on the implicit cultural models of ordering of rights and obligations<sup>129</sup>.

Against this background it is necessary next to distinguish pluralism and plurality on one hand from pseudo-pluralism on the other.

According to Jacques Vanderlinden, “plurality bridges the gap between the existence of several laws, and aims at different situations there are two legal orders which are completely independent the one from the other”.

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120 Belley J.-G., (1993), Dictionnaire encyclopédique de théorie et de sociologie du droit, sous la direction de A.-J. Arnaud, 2e Ed., Paris, p. 446.

121 Le Roy E., (2003), Les pluralismes juridiques, Cahiers d'anthropologie du droit, Editions Karthala, p. 7-17, citant le Dictionnaire encyclopédique de théorie et de sociologie du droit de J-G Belley, p. 17.

122 John Griffiths, ‘What is Legal Pluralism?’ (1986) 24 Journal of Legal Pluralism and Unofficial Law, p. 1-55.

123 Etienne Le Roy, using the same parameters, distinguishes the two conceptions « L'anthropologue et le Droit. Juridisme, ethnocentrisme et reproduction des sociétés, 2005, p. 25. Vanderlinden J., (1995), « Contribution en forme de masque à une théorie des sources du droit au départ d'une source délicieuse », RTD civ. 1995, p. 69.

124 John Griffiths, ‘What is Legal Pluralism?’, op. cit.

125 Gilissen J., (1972), Le pluralisme juridique, Etudes publiées sous la direction de John Gilissen Editions de l'Université de Bruxelles, 332 p.

126 Vanderlinden J., (1993), « Vers une nouvelle conception du pluralisme juridique », Revue de la Recherche juridique n° 2, Droit prospectif, p. 573-583.

127 Dupret B., (2000), « Systèmes coutumiers, centralisme juridique de l'Etat et usages de droit » Chroniques yéménites, n°8, p. 2-6.

128 Greenhouse C., (1989), « Dimensions spatio-temporelles du pluralisme juridique », Anthropologie et Sociétés, Volume 13, Issue 1, p. 35-51

129 Greenhouse C., (1989), « Dimensions spatio-temporelles du pluralisme juridique », Anthropologie et Sociétés, Volume 13, Issue 1, p. 35-51

Pluralism engenders the simultaneous actions of several laws and “makes it possible therefore to consider the totality of legal phenomena without having to reduce them to a unity”.

All of this is the opposite of pseudo-pluralism which states the existence of several laws by reference to a normative system, which are hierarchically ordered and which interact among themselves.

It is known that the law develops in a natural way in the different social groups within which individuals find their place. Thus each community group has “total or partial capacity to organise the relationship between its members by way of a natural legal order”. Each produces then its own particular law without taking account of the recognition of or controlling any other. This approach produces a plurality of views of law which in their turn produce conflicts whose manner of resolution also differ.

Legal pluralism has the vocation of seeking to make a mosaic of different cultures co-exist, with a certain degree of shared sovereignty but it tends to generate conflicts between formal law and customary practices.

Indeed “a truly pluralist society has to find a *modus vivendi* in which the state preserves social order at the same time as it offers its citizen access to their beliefs and their spiritual way of life.

Paraphrasing Plançon in legal culture, the comparative approach of Quebec and Senegal”, the question comes back to enquiring whether each individual has a choice for resolving different legal situations or whether it is only a question of the simple co-existence of legal orders<sup>130</sup>.

That is a modern conception of pluralism in which the individual is central to the problem, since it is the individual who makes the choice.

## **II LEGAL PLURALISM AND THE PROCESS OF COLONISATION IN THE PACIFIC**

The progress of colonisation in the Pacific involved openly and progressively imposing a new law (the phenomenon of imported law) as well as a new form of judicial organisation<sup>131</sup>. Although the phenomenon of the importation of colonial legal systems into the Pacific is a constant, nevertheless the small populations combined with the large territorial areas rapidly led the colonisers to delegate to local authorities a reduced form of power allowing them to exercise in a limited way the former traditional rights particularly in land matters.

This recognition of custom has however always been under the implicit and semi-systematic control of the colonial administration. That is to say subject to its legislation and its principles of justice. The state remains “implicitly the ultimate unitary frame of reference”.

As Jacques Vanderlinden observed “In Melanesia as in Africa ... the traditional systems operate only according to the principles defined by the colonisers - principles whose respect was in the final analysis controlled by the colonisers”<sup>132</sup>.

## **III ADAPTATION OF LEGAL PLURALISM IN POST-COLONIAL SOCIETIES IN THE SOUTH PACIFIC**

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<sup>130</sup> Plançon C., « Culture juridique, approche comparatiste Québec-Sénégal » Rapport avec la Francophonie, laboratoire d’anthropologie juridique comparée, p. 1-9

<sup>131</sup> As B. Rigo points out colonisation in Oceania has also triggered two historical ruptures: the transition from ancestral polytheism to Christian monotheism and the transition from religious rule to external secular rule. In this context, democracy appeared to be the culmination of a painful historical process, an outcome that could be perceived with ambivalence, the completion of a positive project or the ultimate expression of a soulless and de-structuring globalisation process. B. Rigo, *Exigences démocratiques et persistance des logiques océaniques*, paper presented Seminar on New Approaches to Governance And Economic Self-Reliance in Pacific Islands. See also, Wittersheim E., (2001), « Au-delà de la tradition », in *La tradition et l’Etat : Eglises, pouvoirs et politiques culturelles dans le Pacifique*, Cahiers Pacifique Sud Contemporain, 250 p.

<sup>132</sup> Vanderlinden J., (2000), « Les droits africains, entre positivisme et pluralisme » Bulletin des séances de l’Académie royale des sciences d’Outre-mer, 46 (2000), p. 279-292

Although industrialised countries like France and the USA have favoured a very formalist and restrictive procedure for resolving disputes, the islands of the South Pacific region being former colonies which are today independent or enjoying a status of autonomy, have only been confronted by these questions at a late stage.

It is interesting to note that in this part of the world, though the plurality of laws has often been under threat in the part, the modern societies have never been able to totally replace them.

Indeed from the beginning of the 19th century, colonisation under cover of “principles of civilisation of a superior kind, have legitimated the putting in place of a colonial order founded on legal and institutional norms: but doing that has also meant “an institutional and ideological conversion”<sup>133</sup>.

The regions of the Pacific (included within a colonial administration are therefore inevitably submitted to a monist dynamic of power which presents a European centrist view of the world which is strongly imbued by a desire to install a model society with the ideal of equality tending to objectivity in a hierarchy dominated by the law.

According to this positivist conception, the state therefore remains the sole source of law - the holder of the monopoly in the production of rules. It will be noted that in this approach the representation of law can only be linear and hierarchical. Beyond that this representation of the legal system raises inevitably the question of the legitimacy of the transfer of a foreign legal model because “this legal frame risks being the imposition of one specific worldview to the detriment of any other”<sup>134</sup>.

Whether the case is the moderated or radical conception, the different patterns of analysis have all been used to explain the relationship of the post-colonial model with the state law of metropolitan origin.

In colonial logic, the law state is here limited by its own institutions. It promulgates written rules which impose rights and duties, procedural rules, and notably creates “a minimum recognisable criminal law which is publicly applicable, judicial procedures which offer guarantees and a system of fundamental rights which protects fundamental liberties”.

In the island countries of the South Pacific the notion of legal pluralism therefore still lies in a direct link to the notion of the state.

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<sup>133</sup> Le Roy E., (2004), *Les Africains et l'Institution de la Justice, entre mimétismes et métissages*, Dalloz, p. 88

<sup>134</sup> Haoua L., (2003), « Pour un pluralisme juridique plus effectif », p. 157, in *Les pluralismes juridiques, Cahiers d'anthropologie du droit, Laboratoire d'anthropologie juridique de Paris, Editions Karthala*.

#### IV THE ELEMENTS OF POST-COLONIAL LEGAL PLURALISM

Fundamentally it is the small legislative output of the developing states of the Pacific which has given rise to the revival of a customary mode of creating law which has consecrated post-colonial legal colonialism<sup>135</sup>.

Although at its origin the legal pluralism arose from the superiority of a dominant group, it is no longer the case today that it must be considered by reference to a particular society and to a hierarchical arrangement of legal systems within that society.

In short, the post-colonial model of legal pluralism identifies a group of rights

“State law whose job is to apply across the whole of the territory and to all the people, but which in practice focuses on specific sectors of law (company law, contract law) and most efficiently in urban areas<sup>136</sup>;

Traditional law which was practised by the indigenous people before the arrival of the Europeans and which finds its origins in their own views;

Customary law which is a form of traditional law affected or modified by the colonial administration. It applies to new situations with which the traditional societies were not confronted;

Local law, made under the influence of the state, which leaves the way in which it functions to be decided upon by local authorities;

“This local law is characterised by the possibility of the reinterpretation of foreign legal categories in light of autonomous ideas”.

According to Jacques Vanderlinden, the individual is at the heart of this conception of pluralism and “the point of convergence of the diverse legal systems” contrasting thus with the reductionist positivist view in which the state is the sole creator of norms.

State law is therefore only one of the elements of the legal situation and no longer constitutes the sole point of reference.

Radical pluralists have successfully rejected monism (a single order), centralism (the state is the sole origin of norms), positivism and prescriptivism (imposed foreign laws). It can therefore be noted that in this particular context there is a margin of appreciation, uniquely national which is the natural corollary of the existence of a “pluralism of juxtaposition”. It will appear today always for a maladapted conceptual framework or at least as a too narrow conceptual framework to understand notions of culture and identity which relate to the whole of the community of the small countries of the South Pacific.

On this basis alone it is therefore hardly surprising that there has appeared a movement of challenge to the pre-eminence of state laws, and the legal pluralism which operates in the South Pacific can be explained by a double movement of opposition.

The first relatively old and easy to understand manifested itself in relation to the model of dominant colonial legal thought which appears to be the result of a tension born from the existence of systems of law oral and written.

The second, more complex, lies in the more modern frame of relationships which are still strained between the local elite and the colonial or post-colonial powers.

These oppositions together today form the main common denominator which unites almost all the countries of the South Pacific<sup>137</sup>. Thus the creation of the Pacific Islands Forum has its

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<sup>135</sup> Vanderlinden J., (1996), “Rendre la production du droit au peuple”, *Politique africaine* n°62, p. 85.

<sup>136</sup> Lajoie A., (1998), *op. cit.*, p. 686, reprenant l'analyse d'Etienne Le Roy dans son *Encyclopédie juridique de l'Afrique* en 1982.

origin in a collective political response by the Pacific countries in 1971 by the heads of five small island states of the South Pacific which were newly independent<sup>138</sup>.

## V IS LEGAL PLURALISM AN INDICATOR OF LEGAL INSECURITY IN THE SOUTH PACIFIC ?

The socio-historical circumstances which have affected the South Pacific region over the past centuries resulted in the appearance of multiple legal systems with various impacts in the legal sphere<sup>139</sup>.

These systems, the product of traditional custom, originally were developed locally but always in isolation one from another. Then the colonial period imported its legal framework, its own legal processes, in order to maximise control over the colonies<sup>140</sup>.

The inheritance of the colonial period has allowed the traditional law of the local peoples to subsist in various forms, and one of the most important aspects of this pluralism is its survival in the field of judicial organisation.

Therefore two systems of law co-exist today. On the one hand there is the formal system which is product of colonial domination – the colonisers' laws superimpose themselves on those of the native peoples – and the traditional customary law which form a plurality of complex rights<sup>141</sup>.

Although the phenomenon is very widespread in the South Pacific, custom presents a pluralism of a singularly type in Melanesia: the methods of local lawmaking result from acceptance of a multitude of relationships within a formal governmental framework which is shared at the national level<sup>142</sup>.

Dualism is found in the systems of law attached to all the groups and the law linked to the national framework. Shortly stated, singularism opposes pluralism, and mono-centrism and poly-centrism.

“In the same territory two legal systems are in force which apply to different groups of people which correspond to the different statuses created by the colonisers”<sup>143</sup> but which for the most part have been continued at the time of independence or autonomy.

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<sup>137</sup> Mara, Ratu Sir Kamisese, *The Pacific Way: a Memoir*, University of Hawai'i Press, 1997, pp 170-171. Voir également Joint Final Communiqué, South Pacific Forum, Wellington, 5-7 August 1971, at [http://www.forumsec.org/\\_resources/article/files/1971%20Communiqué2.pdf](http://www.forumsec.org/_resources/article/files/1971%20Communiqué2.pdf)

<sup>138</sup> Fidji, Tonga, Samoa de l'Ouest, Cook et Nauru. Sur le processus d'accession à l'indépendance de ces Etats, voir notamment Y-L Sage, *Facteurs d'émergence et d'évolution du droit dans les petits Etats insulaires anglophones du Pacifique Sud*, in *Contemporary Challenges in the Pacific: Towards A New Consensus*, Volume 1, 2001, Editors Stephen Levine & Yves-Lousi Sage.

<sup>139</sup> Such as its adaptation to the range of different languages, the realities or practicalities of law enforcement, transport difficulties, and communications difficulties generally.

<sup>140</sup> Sage Y.-L., (2001), « Emergence et évolution du droit dans les petits Etats insulaires du Pacifique Sud anglophone » *Revue Juridique Polynésienne*, Hors-série Volume 2, p. 23-46

<sup>141</sup> De Deckker P., (1995), *Évolution du droit et coutume autochtone dans les États et territoires du Pacifique*, Paris, Collection l'Harmattan, Université Française du Pacifique, 356 p.

<sup>142</sup> Fraser I., (1999), “Legal Theory in Melanesia : Pluralism ? Dualism? Pluralism Long Dualism?” Art. 3 of Vol. 3, 1999, *Journal of South Pacific Law*.

<sup>143</sup> Gilissen J., (1972), « Introduction à l'étude comparée du pluralisme juridique », in *Le pluralisme juridique*, Editions de l'Université de Bruxelles, p. 14.

In submitting legal matters to separate rules, pluralism is therefore a vector of inequality and of legal uncertainty.

The continuing presence of competing systems of law in the same human space and within the same territorial space inevitably raises the question of conflict of laws within the country whose solutions borrow much from the current rules of private international law. Although preserving pluralism can be the only way to save cultural diversity in the communities of the small states and territories of the South Pacific the question of the unity of the internal law in countries where several customary systems arises.

Customs are *prima facie* usually incompatible with the basic rules recognised in the constitutions or the fundamental laws of most of the small island states of the Pacific. That is notably the case in the relationship between traditional law and human rights<sup>144</sup>.

For Etienne Le Roy, pluralism enables “the recognition of the importance of social ethnic religious cooperative economic and other identities which impinge on each individual over and above the national identity - although that identity may not necessarily affect them. The individual in fact has a multiple identity which places the individual in several social groups and therefore in several legal systems”<sup>145</sup>.

However, this approach also favours discrimination and changes to the equality of the sexes or the education of children, which are humanist concepts which flow from ideologies of the Western world and which are not yet an integral part of the traditional ways of life of many of the little countries of the Pacific area.

Moreover some breaches of human rights do not have the same degree of gravity that they would have attributed to them in Western society. For example, restrictions on the status of woman, marital violence against women, and the frequency of rape and other sexual assaults.

The manner of resolving conflicts do not escape this difficulty. Thus the quasi-systematic search for a reconciliation or of a monetary compensation for the victim in order to avoid criminal or civil prosecution is difficult to make fully acceptable because it appears as a way of sanctioning acts which are nevertheless often regarded as criminally wrong.

Finally if the vocation of custom to protect community peace seems ideal for restoring equilibrium within communities, customary conciliation is often a departure from the idea because the reality of any arrangement between members of a group or between spouses is always subject to a guarantee.

Through the alternative procedures, the parties can be seen to contribute actively to the arrangement of original solutions adapted to each case. The law is therefore more a subjective construction of the subjects of the laws<sup>146</sup>.

But it can also be maintained that under this form of justice which favours mediation the weakness of the state is exposed in particular its incapacity to fulfil its judicial role throughout the territory in question.

Further the application of traditional law raises many questions: there is no legislative framework for the methods used or for the nature of customary rules, or even for the amount of compensation granted to achieve conciliation of the parties.

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<sup>144</sup> On the of Human Rights issue in the Pacific, see Human Rights in the Pacific – Droits de l’Homme dans le Pacifique Patra Butler, RJP Hors Série Special Issue Volume VIII , New Zealand Association for Comparative Law and Association de Législation Comparée des Pays du Pacifique 2009 ([www.upf.pf](http://www.upf.pf), Recherche, Revue Juridique Polynésienne). South Pacific Human Rights: Challenges and Changes (Routledge-Cavendish, London, 2009). New Zealand Law Commission *Converging Currents: Custom and Human Rights in the Pacific* (Study Paper 17, Law Commission, Wellington, 2006). See also Eberhard Christoph, « Les droits de l’Homme face à la complexité : une approche anthropologique et dynamique », *Droit et Société*, no 51/52, 2002, p. 455-486. From the same author, « Les droits de l’Homme à l’épreuve de la contemporanéité », *Droits*, no 41, 2005, p. 219-234

<sup>145</sup> Vanderlinden J., (1996), *op. cit.*, p. 87.

<sup>146</sup> Vanderlinden J., (2000), *op. cit.*, p. 17.



## VI THE INTERNATIONAL ECONOMY, STATE LAW AND CUSTOMARY LAW

In order to understand globalisation and governance within a Pacific context it is important to understand the interaction of the international economy with both state and customary law.

An example of an existing dichotomy is the right of citizenship: On the one hand the State is restricting the right of citizenship to those who were born within the state territory then on the other hand, exercising discretion to grant citizenship to those that will enhance economic advantage.

Another trend concerns the linkages between citizenship and customary land tenure. In countries where a majority of the lands are held in accordance with custom the access to citizenship has been orientated specifically to protect the customary rights and interests in the land. However, there is a contrasting attitude in some other South Pacific states that are introducing legislative regimes which could have the effect of making available customary land for general commercial purposes. This trend is set against the background of the economic policies of bodies such as the Asia Development Bank and the continual flow of statements from aid donors about the economic impediments suffered because land is not available as a commercial security in a manner in which it is necessary to be available in Western economies.

There exists a competing tension between the rights that flow to an individual by virtue of their place of birth and the rights of those who have continued in occupation and physically remain to maintain and work the land. The migrating Diasporas certainly retain a cultural link and familial link to the lands of their birth however their property and political rights may be eroded as the number of generations increases with absence of that family line from the 'homeland'. An example of this was the recent Referendum for Tokelau to become self-governing. Only those Tokelauans' that had resided in Tokelau for three of the 18 months previous to the Referendum were entitled to vote. Another alternative is that the rights of absentees be represented by someone who is resident in the country.

Culturally the proof of ancestral links is reliant on potentially centuries of oral records from potentially many countries. This depends on human memory, the capacity to share these oral records, status at birth and the effect of intervening political events. A state system will favour the certainty that a single written and contemporary record can provide. Moves in this direction as in the Samoa Land Titles Registration Act 2008 significantly strengthened the role of the state law and correspondingly have the potential to weaken the role of customary law (it is interesting to note that this sits amidst the state Constitutional provisions that purport to protect customary land tenure).

These pressures are evidenced particularly in the Pacific and in relation to land. The pressures come from a number of things:

- From the Diaspora - The Pacific has seen a substantial outward movement as is tracked in Gille's book "Conquest to Exodus". Auckland is the largest Polynesian community in the world;
- There are the questions of land scarcity (eg in the small islands such as Pitcairn);
- Land development pressures (WTO);
- Pressures for security of occupancy by the land owners;
- Adoption issues (customary law presents many complex systems relating to adoptions and the associated rights. The state system has an interest in simplifying the land right issues, both in the interest of certainty relating to ownership but also in order to reduce the costs of dispute settlement)
- The relationship to citizenship - citizenship is an issue which has arisen with the colonisation and the establishment of state boundaries which have since become boundaries

of independent states regardless of the communal or cultural links between people on different sides of the colonially established borders.

Customary law and its relation to land rights – in addition to its spiritual significance, the land provided security and sustenance. Access to those rights depended primarily on occupation, participation in work on the land and similar factors. This was against the background of limited options<sup>147</sup>. In the late 20<sup>th</sup> century options became available to move to work other than at a subsistence level, to occupy or own land in ones personal right, and also with the introduction of democracy to be involved in the decision making affecting the community.

The Pacific peoples have now moved in large numbers and left their homelands. In most cases the cultural and spiritual link with the ancestral land is strong but it is not now linked to survival, support or security in a material sense. With the continued outflow of population there is an increasingly reduced language and cultural link with the country of origin (eg the bulk of the Niuean population lives in New Zealand - one in twelve Niueans speak Niuean and only 5% of the Niuean community live in Niue).

Globalisation in all its forms has meant that customary law is weakened by the availability of money, of freedom of movement and improved economic possibilities. Residents in the countries of the South Pacific remain and develop their culture increasingly alone. The links with the diaspora are real but emotional (and sometimes economic through remittances) rather than physical. The diaspora may return to the home country but for holidays. The residents of the countries may leave on visits to the diaspora and also aspire to leave their home country eventually. This raises interesting problems at the governance level. There are increased opportunities against this background for the governments to develop the law without regard for the customary law and, in respect of the land, increasing opportunities for state governments to bow to the pressures of the international community to commodify the land.

## VII CONCLUSION

Is there a programmed disappearance of customary law in the small island states of the Pacific or a failed attempt of transferring the western model of society and its institutions?

So far one must note that the state endeavour has indeed so far failed. It should be noted however that in the present circumstances, there is an inevitability about the demise of customary law. Resources are a critical factor and there are more of them at the centre – controlled by the state machinery. There is now an economic dependence of the community on the state mechanism. The tendency is for there to be more resources controlled from the centre, increased economic dependence of the non-state institutions and, as the state authority extends, there is more state law and improved systems of enforcement of it. The political rhetoric in many countries of the Pacific is for greater respect for customary law but the practice is increasingly for the state to take over in areas previously controlled by customary law.

Is this heading towards a programmed disappearance of customary law or on the contrary is this evidence, as Etienne Le Roy says evidence of “an odyssey of the State, a failed attempt...to transfer a Western model of society and its institutions”?

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<sup>147</sup> For a comprehensive understanding of the land issues in the Pacific, see notably, Making Land Work, Commonwealth of Australia, Volumes 1, 2 (2008). Sue Farran. South Pacific Land Law: Some Regional Challenges, Cases and Developments, [2001] VUWL Rev 47. Farran S. et Paterson D., (2004), *South Pacific Property Law : Resolving Claims to Property*, Cavendish Publishing, 300 p. Sage Y-L, Droits coutumiers dans les Petits Etats Insulaires du Pacifique: De quelques conditions nécessaires pour leur prise en compte dans les litiges fonciers ; Du rôle des droits coutumiers dans les litiges fonciers dans les petits Etats Insulaires du Pacifique. Presentations made during the 18th Judiciary Conference of the Pacific (Papeete- Tahiti), 15-18 June 2009

“The challenge of pluralism is to reach accommodation with diversity without abandoning identity, limited not as the intelligible unity of elements or multiple factors which constitute either its being or by individual or by community or by culture, but as the consciousness that these elements or factors belong together”.

The undertaking is not without dangers and the temptation is great, by virtue of a desire for simplification, to give priority to the superiority of state law to the detriment of local custom and tend towards a unification of legislation and other legal systems.

It is however undeniable that “countries in the course of development feel strongly the need for a modern specific law as a condition of the development; but they cannot deny the force of local traditions and the fact that those often answer better today to the specific needs of the people”.

The formal judicial system is often seen as a government organisation: customary tribunals must hence forth accept the challenge of modernising. This is why the traditional view of an oceanic law, the symbol of the unity and uniformity of the region still seems utopian given the particular Pacific environment.

What is more, on the international political scene the states of the Pacific region have to undertake a westernisation of their way or life or else risk withdrawing themselves from globalisation and the development assistance that flows from it which is indispensable to them.

Modernity tends to imply a universalistic logic and hence social and cultural diversity is irremediably devalued because that is contrary to the sought globalisation.

It remains the case that in spite of the official rhetoric of those speaking of globalisation, universality is far from being a factor of unity in the island states of the South Pacific.

For these countries it seems to be a simple corollary of an economic and cultural system which is being imposed upon them by the leading industrialised states - among which Australia and the United States of America find themselves in the first rank.

The consequences of this hegemony which privileges a uniform world trade model of society and which implicitly presupposes the disappearance of frontiers - a notion which it is known is particularly based on diversity of identities have an effect even more marked in the small island states of the South Pacific where the model of societal development known till now rests primarily on what is appropriate for the individual and the protection of the individual's environment.

Further more the phenomenon of globalisation of trade, the indicator of the levelling and the disappearance of rights of identity is even more open to criticism because it appears to many political leaders of the small island states of the Pacific as a poorly disguised form of neo-colonialism.

In fact “it is necessary that the dominant theory moves out from the neo-colonial and colonial conception in order to affirm the legitimate efforts of small states and territories in a renewed framework and in conformity with the law. Is this not in fact the position of all the populations of the world whose cultural, economic, political, and social coherence has most suffered under the legal pluralism conceived by the modern state?”.

The principal challenge which legal pluralism in the South Pacific must face is in overcoming the traditional duality of the old and the new at the same time as rejecting systems which are based on a simple fusion of these elements of duality by giving a special value to ideas of laws of the people, their culture, and identity. These elements must in this new perspective take priority over other constitutive elements of legal pluralism. They allow small island states of the Pacific to avoid in advance all attempts of explanation or justification of the basis of other systems of culture which depend exclusively on Western or European ideas and thus reject a positivist view of law and legal and political systems of universal vocation of which those ideas are the consequence.

Finally in a more general manner, as Hughes has said, this common denominator presents us with the basis of what must be a true policy of legal pluralism specific to the small island countries of the South Pacific.

But it must not be misunderstood. This phenomenon cannot be achieved by a simple manifestation of a desire to return to sources which amount to a looking inward on oneself. On the contrary an unequivocal reclaiming of the recognition of an open or relativist system in which the law and the structures which accompany its operation must take account of the cultural environment and the social specificities which prevail in the small island states of the South Pacific.

That said, it is also a criticism of all evolutionist theories or those founded on development ideas whether they be Christian, Hegelian, Marxist, Darwinist, or marked by progressive liberalism which present a particular legal order as a step towards a better development of society or culture.

From this perspective the political divisions would no longer be seen simply in terms of relationships between social classes or ideologies. The result would be that the traditional western political categories which are so familiar, whether they be conservative socialist, liberal or democratic, will also be transformed.

A number of countries in the South Pacific have since independence had the possibility of greatly strengthening the role of customary law in their systems. Vanuatu, Solomon Islands and Papua New Guinea in particular had this possibility - that of developing the "underlying law". However the opportunity has not been taken by the holders of institutional power (eg judges) and may well now have been lost.

Those with political power within the central state system have achieved that power by the use of the imported / colonial legal mechanism. Most countries have been content to continue with the inherited political system and have done little either to modernise the laws or in the case of foreign enacted laws applying in the country, to patriate those laws. What is needed therefore is a new political elite if the challenges of the relationship of the state law to customary law is to be taken up and the opportunities presented by the customary legal systems fully exploited.



