

Re-humanizing the corporation in the financial industry

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Introduction

- Concerns on the modern corporation
- The Perfect System Syndrom
- Questions on Supervision
- Reconnecting to Society
- Taking it Personally
- Re-humanising business

Theory of the Firm

Multiple objectives → single objective

Dominant frame of reference: shareholder value + agency theory

Clarity of focus and measurable indicators

Tools to enforce: takeover bids, remuneration, activism

- Indicators become targets and corrupt
- Shareholder not sole principal
- Externalities unpriced

Ulterior purpose of corporation in society out of sight

Capital Markets and Investment

Capital Market perception

- Corporation is a balance sheet
- Transactionable assets and liabilities
- Optimal, immediate financial outcome is relevant 'value'
- Financial capitalism
- Marginal value further and further removed from actual business (Paul Mason, Postcapitalism, 2015)

Investors

- Excessive diversification, investing in markets
- Prime focus is liquidity
- Regulatory pressures to do so
- No commitment to investee companies
- No incentive to engage: compliant, formalistic engagement
- Favour constant cash-out

Transactionality and financial value dominance erode integrity of business and societal value

"Shareholder value focus delivers corporations into the hands of uncommitted and irresponsible capital" (Colin Mayer, Firm Commitment 2013)

Organisation

The World of Management

- Rationalisation of business processes
- Remove all inefficiency
- Unstoppable beast
- All for sake of improving financial outcomes, justifies all cost cutting, laying off people

Bureaucracies

- Managerial control mechanisms
- Processes, systems, KPI's, compliance, accountability
- False sense of control
- IT enhances the system over humans

Human meaning gets lost and is traded in for effectiveness, growth and financial outcome

‘But when year after year things boil down to targets and numbers, milestones and deadlines, and yet another change program and cross-functional initiative, some people can’t help but wonder about the meaning of it all and yearn for something more’ (Frederic Laloux, Re-inventing Organizations, 2014)

Remuneration

Executive Remuneration

- performance based pay, pre-set targets, benchmarking
- massive increase
- alignment with uncommitted capital owners

Human inspiration is reduced to personal financial outcome

Built to Fail

- we cannot handle substantial performance based pay (Winter 2010)
- perverse incentives (Coffee 2002)
- crowd-out intrinsic motivation (Fehr Gächter 2000)
- target setting corrupts (Jensen 2003)
- performance deteriorates beyond simple jobs (Ariely 2008, Pink 2010)
- asymmetric benchmarking (Garvey, Milbourn 2003)
- Skin in the Game increases risks through loss aversion (Kahneman 2011)

“More and more incentives destroy our moral will” (Barry Schwarz, Practical Wisdom 2010)

Regulation

Ever increasing rulemaking plus supervision

- more and more detailed rules
- more and more compliance and supervision
- Illusion of control
- EU CRD IV art 91, par 12 (c): guidelines for honesty and integrity!!!

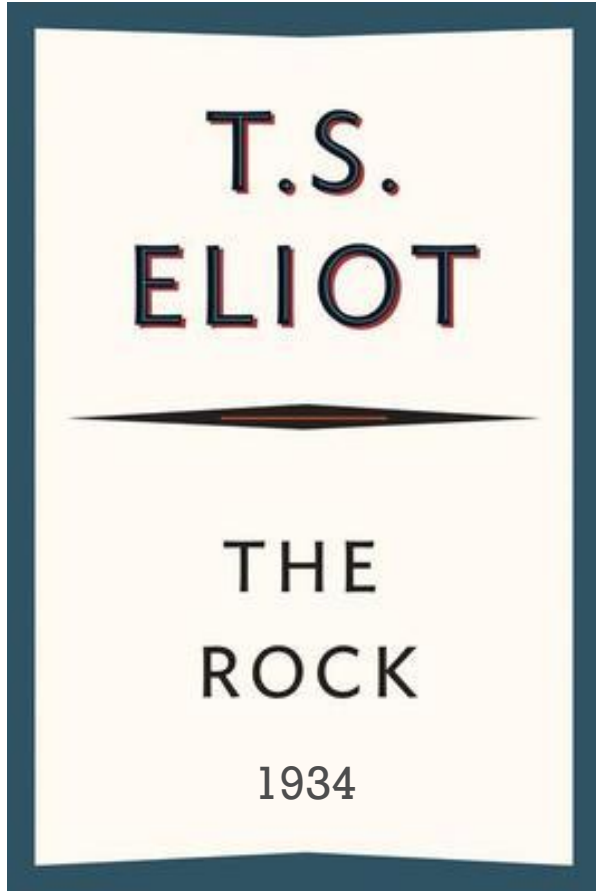
Human sense of personal responsibility is diminished by rules and supervision

Counterproductive

- paradoxical reduction of responsibility: only for compliance, no longer for consequences of behaviour (Schwarz 2008)
- Lack of training of moral muscle (Schwarz 2010)
- regulatory crowding-out (Winter 2015)
- incentive to find loopholes, regulatory innovation (Winter 2015)
- more rules, more mistakes, more cognitive dissonance, more defensive, distracted behaviour (Winter 2017)

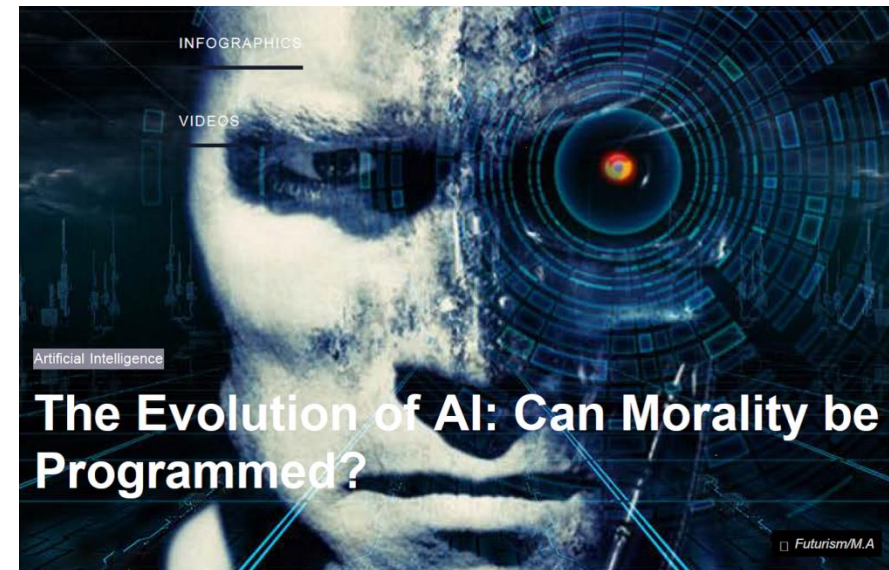
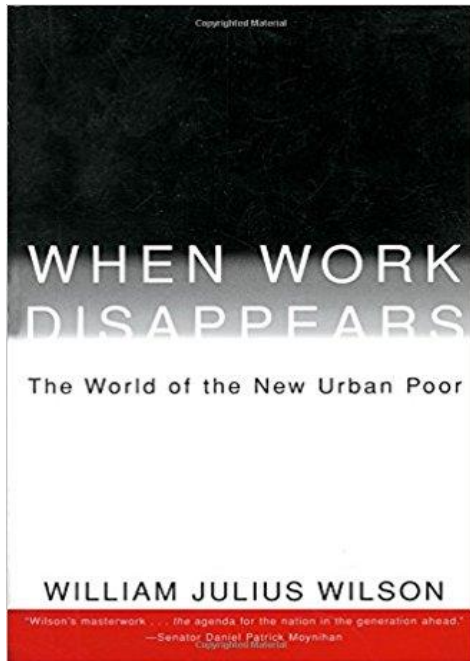
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The Perfect System Syndrom

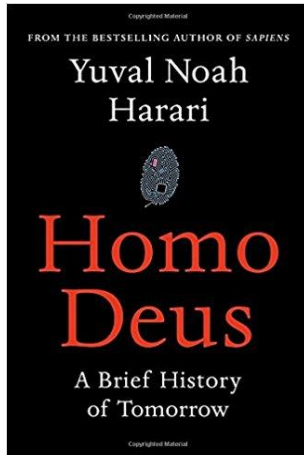


“They constantly try to escape
From the Darkness outside and within
By dreaming of systems so perfect
That no one will need to be good.”

First Concerns



And beyond



Are we humans just algorithms to process data? To be replaced by better, flawless, more efficient algorithms?

Heideggers Frage
nach der Technik

... *bildungstheoretisch nachgedacht*



Werner Sesink

Bildung und Technik 2

Technology reduces humans to readily available resource, standing reserve for production purposes, like trees



More true than ever: people are valued as bundles of data

It all adds up

- Theory of Firm
- Capital markets
- Organisation
- Remuneration
- Regulation



Excessive rationalisation in order to create financial value as sole objective

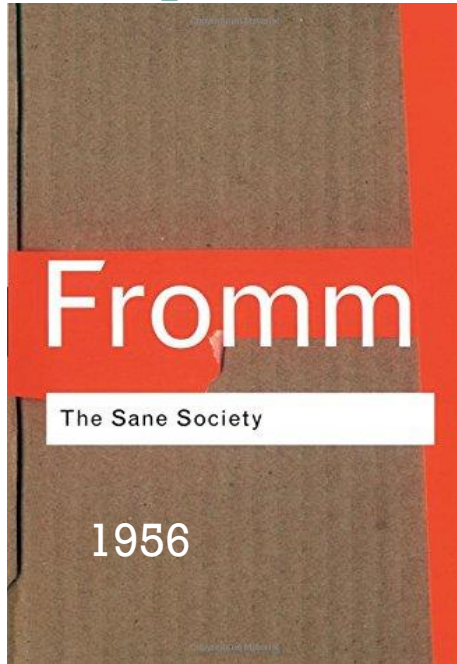
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Technological reduction of human meaning

Corporation becomes a de-humanised entity

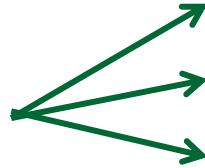
Disconnected from Society

Why is this relevant?



- Business has lost all foundations and proportions which make sense humanly
- Only what is quantified in figures tells manager whether he is engaged in profitable, that is to say, meaningful business
- Hierarchy is replaced by conformity to capitalism's anonymous laws

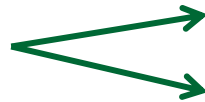
Human inspiration



Purpose
Autonomy
Mastery

Dan Pink, Drive, 2009

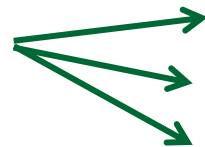
Human morality



Values
Virtues

Alistair MacIntyre, After Virtue, 1981

Human judgement



Non-statistical
Context-sensitive
Practical Wisdom

Christian Madsbjerg, Sense-making, 2017

Barry Schwartz, 2010

What is the real role of external supervision?

- External supervision now becomes boundlessly invasive
- Scores of supervisors turning financial institutions upside down, constantly looking for potential failures, unnoticed risks
- Perfect System Syndrom
- Sumantra Goshal, the Smell of the Place
- <https://www.youtube.com/watch?v=UUddgE8rI0E>
- Comply, Control, Constraint, Contract
- Role of regulator is to keep or remove 'crooked elements out of system', NOT to create the Perfect System
- Behavioural insights relevant, but cannot be digitally applied
- Supervision also causes paradoxical effect of eroding responsibility
- Trump's Financial Choice Act: higher leverage ratio, less supervision



Frontrunners in Governance Codes



Role of the Board is to promote the long-term sustainable success of the company, **generating value for shareholders and contributing to wider society.**

The Board should establish **the company's purpose, values and strategy**, and satisfy itself that these and its culture are aligned. **All directors must act with integrity, lead by example and promote the desired culture.**



The Board focuses on **long-term value creation** for the company and its affiliated enterprise, and **takes into account the stakeholder interests** that are relevant in this context.

The board should **adopt values for the company** and its affiliated enterprise **that contribute to a culture focused on long-term value creation**



The organisation is an **integral part of society** and thus a **corporate citizen**

Members of the governing body should act **ethically beyond mere legal compliance**

The governing body should adopt a **stakeholder inclusive approach** that balances the needs, interests and expectations of material stakeholders

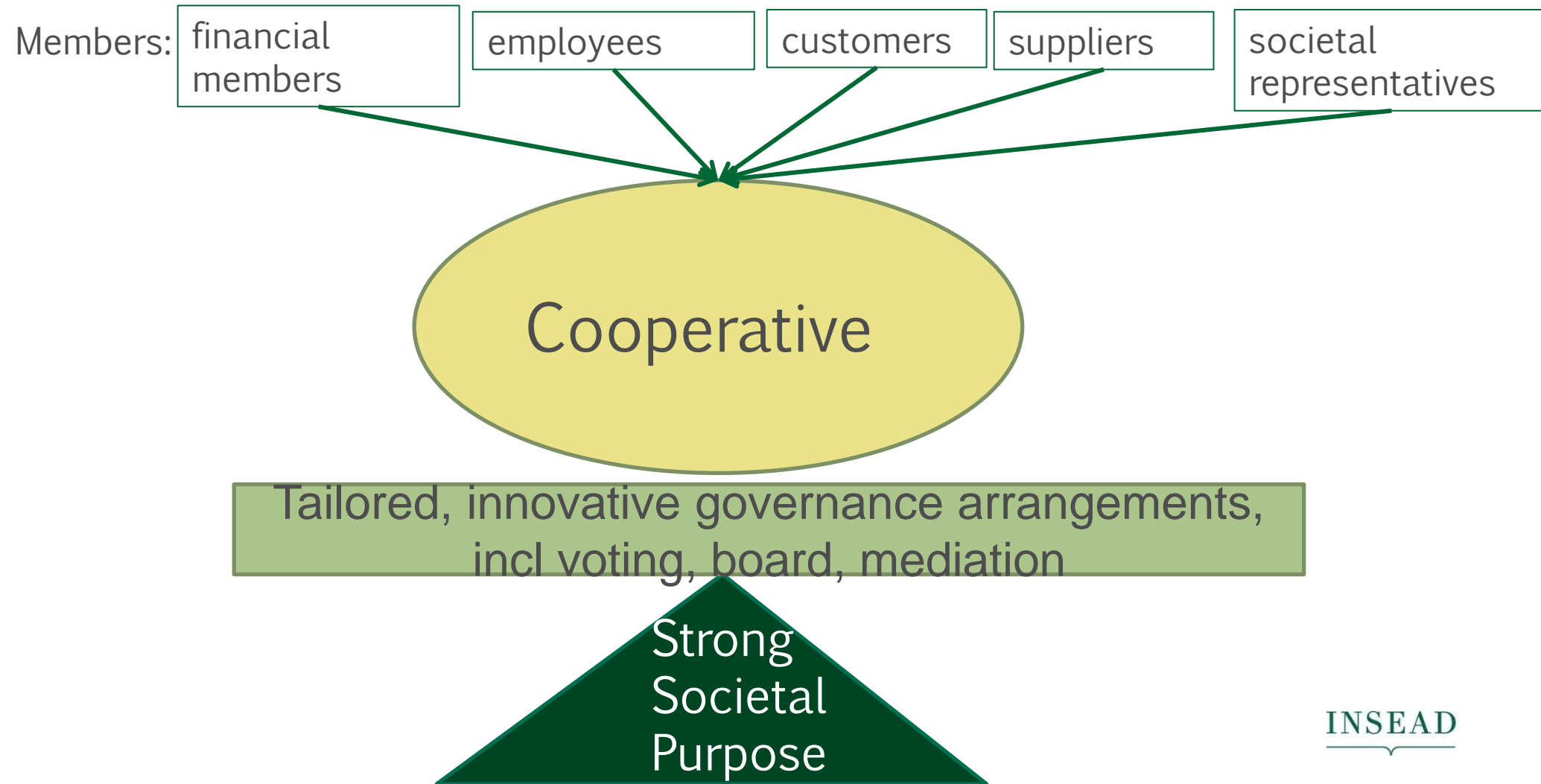
Anchoring Displaced Banks back into Society

- Many banks in their core strongly integrated in society
- Key financial services that people, businesses, organisations all depend on
- Savings, loans, mortgages, pensions

- Displaced primarily because customers were seen as instruments to generate profits (Goldman Sachs – Abacus)
- Paradigm of single-minded shareholder value driven performance
- Facilitated (not caused) by the corporate form

- Redesign the legal form of those banks to a multi-stakeholder entity?
- Shared Value and Shared Governance

Multi-Stakeholder Cooperative



Taking it Personally: Integrity

Integrity is not about thinking or talking

Integrity is about acting and effectiveness, of person and organisation

Normative concept of integrity (of high moral standards) makes real dialogue impossible



Integrity is keeping your 'Word' whole and complete

By Honouring your Word

- Keeping your Word, or
- Inform person who relies on your Word directly when you know you will not keep it and ask how you can help solve his problem

Personal relations

Organisation towards its customers, shareholders, employees

Making business human requires practice

- Aristotle
 - Virtues, practical wisdom
- Thomas Aquinas
 - Habitus
- Benjamin Franklin
 - Daily practice
- Peter Sloterdijk
 - Antropotechnik



*Denn da ist keine Stelle da die Dich nicht Sieht,
Du musst dein Leben ändern (Rilke)*

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