Centre for Research on
Socio-Cultural Change

# CRESC Working Paper Series

Working Paper No. 48

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January 2008

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The authors acknowledge the support of the ESRC under a Business Engagement Scheme award where CRESC and KPMG are partners. David Shammai works for KPMG and Karel Williams is co-director of CRESC. Ismail Erturk, Julie Froud and Adam Leaver teach at Manchester Business School while Sukhdev Johal teaches at Royal Holloway Management School. The views expressed in this article are those of the authors and not the organizations they work for.

# Corporate Governance and Impossibilism

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## Abstract

This paper presents a mixed methods analysis of proceduralised corporate governance as a technical practice which is " impossibilist" because it not only inflates expectations but sets fundamentally unattainable objectives. An initial review of the systematic empiricist literature shows how disappointment with corporate governance is justified empirically because changes in procedure and new mechanisms (such as the insistence on more independent NEDS) have little ascertainable positive effect on shareholder value and firm performance. The argument about impossibilism rests on our own descriptive statistics. Governance misrecognises the mechanisms around value creation in giant public companies because it is not only public company managers but also shareholders who create value in a stock market which operates as a kind of Ponzi scheme. The argument about impossibilism is extended to public sector organisations through a case study of the BBC. A brief conclusion argues that impossibilism in the private and public sector is associated with a massive increase in the circulation of "sincere lies" whose longer term effect is an insidious discrediting of major private and public institutions and their managers.

## Key words*:*

corporate governance, giant firms, liberal collectivism

## Introduction

> Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies….The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.
>
> Cadbury report (1992)
>
> Any technical practice is defined by its ends; such and such effects to be produced in such and such an object in such and such a situation. The means depend on the ends….Left to itself, a spontaneous (technical) practice produces only the theory it needs as a means to produce the ends assigned to it.
>
> Louis Althusser, For Marx(1965)

In etymological terms, the widespread use of the term "corporate governance" from the early 1990s onwards represents a minor evolution in the usage of the venerable generic term "governance" whose meaning was inevitably inflected as it found a new field of application in "corporate" affairs. The generic idea of governance has been circulating for more than 600 years: the Oxford English Dictionary (OED) gives several interrelated definitions where from the late 1300s governance means government without the tight connection to sovereignty, state apparatus and polity and with added emphasis on the administrative and procedural elements of governing. Thus, inter alia in the OED governance means 'controlling, directing, or regulating influence' and the first usages imply a broad and diverse field of application. In the OED's examples of first usage, Wyclif around 1380 wrote of the governance of 'ye Chirche' and Chaucer around 1386 wrote of domestic 'gouvernance of hous and lond'. If this concept of governance was in principle always transferable, it was curiously in practice not applied to the public company in the first hundred years of that company's existence. The modern public company in the UK can be dated from the mid nineteenth century when the acts of 1844 and 1856 facilitated the issue of tradable shares with limited liability. But the term corporate governance (associated with the assumption that governance should be for shareholders) only passed into widespread English use in the early 1990s

This current Anglo American concept of corporate governance is interestingly too recent to merit a separate entry in the OED. Wikipedia claims 'the first documented use of the word' dates from 1960 but then undermines its own case by reprinting that definition about 'the structure and functioning of the corporate polity' which connects with earlier ideas that the corporation existed for multiple stakeholders (not shareholders). More plausibly, modern British shareholder centred usage begins with Bob Tricker's book, Corporate Governance, in 1984 which makes an intellectual case for using non executive directors (NEDs) to, 'set the corporate direction' and supervise management. This objective is then officially defined and delivered in the subsequent British Cadbury Report of 1992 which is important in two ways: first, because Cadbury introduces the form of words about, 'directing and controlling' the company which has been extensively reused in subsequent definitions by the OECD (1999) the Department for Business Enterprise and Regulatory Reform (BERR) (2007) and many others; second, because Cadbury sets this process in a specific context whereby the key actors are NEDs who control management in the interests of shareholders by procedural means. The definition has since been developed and diluted as it has spread into other territories and corporate forms. Thus, the OECD backtracked by recognising 'other stakeholders' (as well as shareholders) as participants in the firm because its constituency included mainland European countries where there was resistance to shareholder primacy; while proceduralised corporate governance has since spread by mimesis and metaphor into, for example, public sector organisations which have no shareholders.

In another register, the growing reliance on proceduralised corporate governance since the Cadbury report of 1992 represents a revolution in capitalist control practice whose importance has so far only been reinforced by the conjunctural twists and turns of our increasingly financialized capitalism. Here corporate governance is part of a neo-liberal apparatus that now replaces Keynesianism, Beveridgean social insurance and other discredited control technologies of the liberal collectivist period. The revolution could be constructed in different ways using new or old apparatuses. For example, within a Boltanskian (2005) analysis of the 'new spirit of capitalism' corporate governance could be construed as a new kind of test which legitimises the unrestrained pursuit of profit for the benefit of (all of us as) shareholders. It could also be construed as a 'technical practice' in the Althusserian sense with two key characteristics: first, it is defined by its pre-given ends and the adoption of means appropriate to those ends; second, it is under-theorised because it, 'produces only the theory it needs as a means to produce the ends assigned to it'; whereas scientific practice theoretically constructed its own object of knowledge. Althusser's 1960s examples of technical practice in the sphere of the social included, 'many of the branches of psychology and sociology' as well as of economics and politics. But, even more so, corporate governance meets the criteria of a technical practice because it relies on definite (procedural) means to deliver its given end of shareholder value, which is defined by gestural pre-existing theorisation in the form of agency theory in mainstream finance. And, interestingly, the ends/means relations in corporate governance are problematic so that, as we have argued elsewhere, hence corporate governance is already associated with disappointment (Erturk et al, 2004; Froud et al 2006).

After Glucksmann's (1967) incisive critique of Louis Althusser's ontologically impossible ideas about science, the ensuing reaction against Althuisserianism distracted attention from the Althusserian notion of 'technical practice' as a kind of lesser knowledge which is neither true nor false, but shallow and instrumental. Why and how are we going back to (discredited and discarded) Althhusserian ideas? Because technical practice has a 'field of the visible' which, in the case of governance, usefully highlights the paucity of theoretical support and the problems about ends/means relations which are at the centre of our argument and empirics in this article. And because technical practice can be used not as a frame for the production of Althusserian knowledge but as a cue for a mixed methods analysis with non-Althuserian conclusions about how corporate governance is a technical practice which delivers something less than (and different from) what it promises. This is ironic given Althusser's overwhelming preoccupations with demarcating good and bad knowledge in terms of its conceptual form of production through its problematic and process with or without a subject).

The first section does use an Althusserian lens as it considers corporate governance as technical practice in a political context by reviewing the prescriptions for proceduralised governance in the seminal British reports by Cadbury (1992), Greenbury (1995) and Hampel (1998). These reports popularised a problem/solution couple which became an export product that was then sold to the public and private sector internationally. The second section then diverts empirically onto non-Althusserian terrain initially by reviewing the statistics of systematic empiricist testers which show how disappointment with corporate governance is justified empirically because changes in procedure and new mechanisms (such as the insistence on more independent NEDS) have little ascertainable positive effect on shareholder value and firm performance. This section also introduces our own thesis about "impossibilism" and our argument that governance not only inflates expectations but sets fundamentally unattainable objectives. This argument rests on our own descriptive statistics about how governance misrecognises the mechanisms around value creation in giant public companies when it is not only public company managers but also shareholders who create value in a stock market which operates as a kind of Ponzi scheme. Section three extends the argument about impossibilism to public sector organisations and adds another method by drawing on case study of the BBC. A brief conclusion argues that impossibilism in the private and public sector is *associated* with a massive increase in the circulation of "sincere lies" whose longer term effect is an insidious discrediting of major private and public institutions and their managers. Although the cue is Althuserian, our mixed methods analysis takes us towards a much more cultural and paradoxical understanding of impossibilist technical practices.

## 1. Governance after Cadbury as technical practice

Within capitalist national polities the status quo and/or change are both usually justified by leaps of faith. These leaps can be made in several different ways: either by assertions about the effects of economic institutions like labour market regulation or political choices about taxation rates or by assumptions about what control technologies like social insurance or funded saving can deliver. Under mass democracy, the political class generally promises the best of both worlds through institutions, choices and control technologies which offer a sustainable combination of economic dynamism and social responsibility. Under this rubric, novelties are built on the perceived irrelevance and failure of previous choices and technologies. In developing this general argument, we will start from the British case because this is the country where proceduralised governance was invented in the 1990s and where there is a very clear transition from an earlier set of control techniques. In the period of the post war settlement, Beveridgean social insurance and Keynesianism were used for liberal collectivist purposes. As we have argued elsewhere (Cutler et al. 1986 ; Williams and Williams, 1987) the principle of their liberal collectivist rationale was to combine as much of the market as possible with as much collectivism as necessary. After Thatcher in the 1980s, proceduralised governance was used in a new period of herbivore neo-liberalism which sought to liberate enterprise and give business a leading role by removing or eroding old collectivist guarantees of jobs or maintenance, while at the same time avoiding gross social irresponsibility. From this point of view, proceduralised governance was a new answer to a recurrent political question about how to deliver the best of both worlds whose old answers were Keyenesianism and Beveridgean social insurance. This historical perspective is interesting because, *plus ca change*, the successive control technologies were all technical practices in the Althusserian sense and all were from their beginnings dogged by disappointment.

Both Keynesianism and Beveridgean social insurance were given their objects from the outside by a combination of events and prior theorisation. Thus Keynesianism was about the adjustment of aggregate demand through fiscal fine tuning and credit rationing so as to maintain the economy at full employment without inflationary pressures. It presupposed the prior theoretical formulations of Keynes' 1936 *General Theory* ambiguously represented in subsequent mainstream concepts and measures of aggregate demand, so that, under war time pressure of events, the Kingsley Wood Budget of 1941 could calculate the inflationary gap requiring policy response. Beveridgean social insurance aimed at 'the abolition of want' through more generous flat rate social insurance allowances comprehensively covering all the contingencies which could interrupt wage earning. It presupposed the definition of primary poverty in physical efficiency terms as originally proposed by Rowntree (1902) in his first survey of York because that provided the conceptual frame and operational measures which allowed Beveridge in 1942 to calculate the minimum allowance necessary to lift those on benefits out of poverty. At the same time the technical practices of Keynesianism and Beveridgean social insurance were in no sense implicit in the original theorisations of Keynes and Beveridge because the practices relied on policy instruments which were not envisaged or authorised in the classic texts. Thus Keynes (1936) envisaged the 'euthanasia of the rentier' shareholder as a way of stabilising a financially led capitalism after the great crash, not the manipulation of aggregate demand to stabilise managerial capitalism in the long boom. In the first York survey, Rowntree deliberately eschewed all policy prescriptions and could not anticipate either the post-1908 Liberal experiments with social insurance or their reinvention under pressure of inter war unemployment.

The other important point is that these technical practices were from the beginning shadowed by disappointment about the effectiveness and appropriateness of means to given ends. The revenue limits of flat rate contributions were emphasised by Labour ministers as early as 1948 (George and Wilding,, 1999, p 51) while the Phillips Committee of 1954 effectively withdrew any measurable commitment to full subsistence on the benefits side. As for Keynesianism, from the late 1950s onwards economists mounted a technical attack on the ineptitude of Keynesian management practice as a succession of mistimed and perverse adjustments of demand, while the Left reworked this critique of economic policy as 'sunshades in October' (Macrae,1963). Keynesianism was finally discredited in the 1970s against an economic background of oil shocks amidst political reaction against the way in which full employment empowered the organised working class. This disillusion helped to create the electoral opportunity for Thatcher, but the dropping of the old control techniques was under way well before 1979 on the centre left as much as the centre right. It was the Labour party under Gaitskell which unsuccessfully proposed a post-Beveridgean system of earnings related insurance in the 1959 election and it was a Labour prime minister Callaghan who in 1976 opined that we could not, 'spend our way out of recession'.

Thatcher, like Blair afterwards, played politically towards the floating voters in the middle in all kinds of ways which encouraged neo-liberalism in a herbivore form. Thus, notwithstanding utility privatisation and PFI initiatives, the share of public expenditure in GDP could not be dramatically reduced as long as target voters consumed free or subsidised health and welfare and supported such provision for others. The main shift was therefore from progressive direct taxation to regressive indirect taxation which allowed higher income groups to keep more of what they earned. Labour markets were deregulated, organised producer interests were faced down in the miners' strike and the liberation of enterprise performed in other ways. But, as Mick Moran (2003) emphasises, Tory and New Labour politicians faced a public which, according to survey evidence, remained deeply suspicious of business. As such big business faced NGOs and other actors in civil society determined to change or constrain business activity in a period when many traditional forms of business organisation, like trade associations, were apparently in decline. Organised, collective or corporatist political responses to this deficit of legitimacy were ruled out by the political *a priori.* The strategically important new control technologies, which assuaged popular hostility by guaranteeing the social responsibility of business, had to be micro techniques of intervention at workplace or enterprise level. These micro techniques included equal opportunities after the 1975 creation of the Equal Opportunities Commission initially to address gender issues, or again corporate governance after the 1992 Cadbury Report. Both technologies integrate social criticism of business with the performance of social responsibility by business in ways which legitimise the leading role of the corporate sector in present day capitalism.

The technical practice of proceduralised governance was articulated within a few years in the 1990s through three quasi-official British reports by Cadbury in 1992, Greenbury in 1995 and Hampel in 1998. The first report by Cadbury is the more important because Greenbury 1995, 1.2) had the narrower remit of reporting on directors' pay; and Hampel (1998, 1.7) writes a report which explicitly 'endorses' the findings and contextualises the recommendations of his predecessors. As is the case with technical practice, the reports are ostensibly given their object from outside so that they must address the business problem about deficit of legitimacy. Thus Cadbury's introduction is quite explicit about a background of events in the form of company failure at BCCI and fraud with Maxwell, and also notes 'the controversy over directors' pay', which by the Greenbury Report had narrowed to a concern with share options for "fat cats" in privatised utilities. But the response to events also depends on a clear reframing of the problem because the 1990s problem of corporate governance is all about ensuring that independent non-executive directors monitor and direct management in the interests of outside shareholders and this problem definition exists in a specific theoretical context.

The language of 'shareholder value' and the explicit objective of, 'the greatest practicable enhancement over time of their shareholders' investment' appears for the first time in Hampel (1998, 1.4 and 1,6).but, from the beginning, Cadbury is very clear that, 'boards of directors are accountable to their shareholders' ( 1992, 3.4 and 6.1). The Cadbury 1992 position is in some sense no more than a restatement of the established principles of English law under which the shareholders own the company. It also represents a revolution because in Hampel's 1998 formulation the interests of business and society are best served by maximising the shareholders return (whereas Keynes in 1936 and most inter-war social democrats and liberal collectivists recommended capping the rentier's financial return in the interests of society). The revolution was consolidated by the UK Company Law Review. This considered the stakeholder perspective but produced a Final Report in 2001 which endorsed shareholder primacy.

In the academic background to 1990s governance we have the discourse of mainstream finance and pre-existing agency theory which dated from the 1970s and was now used to frame governance. Jensen and Meckling (1976) had added principal/agent conceptualisations to pre-existing ideas about the firm as a nexus of contracts which had been formulated by authors such as Alchian and Demsetz, (1972). Their problem definition is evident in Greenbury's language about, 'aligning interests of (executive) Directors and shareholders' in several key passages (Greenbury , 1995, 1.15, and chap 4). Within this agency problematic, Greenbury launches the 'pay for performance' conditional justification of high pay for CEOs and CFOs who would normally also be executive directors. Here high pay is not a problem but part of the solution if performance related elements of remuneration are used as incentives to lever senior management effort which delivers more shareholder value:

> The performance related elements of remuneration should be designed to align the interests of Directors and shareholders and to give Directors keen incentives to perform at the highest levels
>
> (Greenbury, chap 4)

At the same time, it should be emphasised that, here again, performance related pay acquired a privileged policy instrument status in the 1990s technical practice of governance which performance related pay (PRP) never had in earlier 1980s agency theory. There were several different sources of external and internal discipline on incumbent management. Thus Jensen (1986) in the 1980s had put the main emphasis on external market discipline via the market for corporate control, while Fama (1980) emphasised the external labour market and reputation of the individual manager as much as the internal market and reward.

In governance discourse, PRP was a first principle which required a new kind of operating system so that non-executive directors determined pay in remuneration committees subject to the consent of fund managers. From Cadbury onwards, governance discourse was about creating new kinds of actors (engaged shareholders and non-executive directors) who could perform new procedural practices that would curb the power of incumbent management. In the context of pension fund capitalism, the shareholder had a double identity: the contributor/beneficiary had all the rights but acted as a kind of (virtual) shareholder because responsibilities were delegated to his/her fund manager and NED representatives. Thus, Cadbury (6.11) emphasised the importance of regular meetings with management, the exercise of voting rights and review of board composition to ensure the presence of non executive directors (or NEDs) who would represent the shareholder in the boardroom. The outside director was reinvented as a NED without executive responsibility, while the number and role of NEDs in audit and pay was increased in successive reports which also applied increasingly severe criteria of independence which excluded those with previous executive roles or current consultancy contracts. Cadbury (4.11) initially recommended at least three NEDs of whom at least two should be 'independent' and envisaged an audit committee composed only of NEDs and a remuneration committee 'wholly or mainly' composed of NEDs (Cadbury, 4.35 and 4.41). As a back stop safeguard against executive power and imperial CEOs, Cadbury also recommended the separation of chief executive and chairmen roles. The proceduralised changes involving NEDs could be mandated and Cadbury proposed to do this via a voluntary code of practice for listed companies on the understanding that the few who did not comply would be obliged to explain their non-compliance.

The diffusion of innovative technical practice is often very rapid and so it was in this case as proceduralised governance was sold on as a kind of quasi-universal, transferable technique for controlling management in quoted companies (with political concessions to national differences). Much of what happened internationally in the late 1990s is summed up in the Organisation for Economic Co-operation and Development (OECD) definition of 1999. This reproduces the Cadbury formula about governance as 'the system by which business corporations are directed and controlled' and recognised Cadbury's procedural revolution in the boardroom through an insistence that governance, 'spells out the rules and procedures for making decisions on corporate affairs' But, in deference to political sensibilities in mainland Europe, the OECD definition recognised not only shareholders but also 'other stakeholders'. The OECD also accepted that the rules and procedures around the empowerment of NEDs would have to vary internationally according to differences in law, custom and practice. Thus, in Continental Europe, German two tier boards with worker representation were not outlawed just as one share one vote was never enforced; while in the United States the combination of chairman and chief executive roles remained commonplace. The balance between voluntary codes of principle and legal sanctions against offenders also varied from one jurisdiction to another especially between the UK and the USA where punitive legal sanctions were reinforced by the Sarbanes Oxley in the aftermath of the Enron failure and WorldCom fraud. In a world of capitalist variety, proceduralisation could not mean the same rules for everybody, though NEDs became more important everywhere. In the UK, NEDs increased their dominance of large company boards so that by 2007 NEDs outnumbered executives by 2:! and more than one fifth of FTSE 100 companies had just two executive directors, typically CEO and CFO (Financial Times,, 31 December 2007). Insiders, like the chair of the Financial Reporting Council are now complaining about too few executive directors when, in our view, the main board has been reinvented as a new kind of supervisory board

A more bizarre development was the transfer of proceduralised governance principles about direction and control by NEDs from their sphere of origin in private sector companies to a new sphere of application in public corporations where the absence of shareholders and the profit motive apparently made no difference. Thus, as Rhodes (1999) observes, with the new public management 'government becomes governance'. In the UK case, there always have been governing bodies of one sort or another for public corporations but these now become "boards" as private sector terminology and governance practice provided the template for reform. The changes within the British NHS are early and notable. In his analysis of the British NHS, Harrison (1998, p. 141) argues that public sector concern with governance is more or less 'contemporaneous' with private sector concern. When NHS trusts were introduced after 1989, they were established with 'boards of directors' (Department of Health, 1997). After the publication of the Cadbury report, the NHS established a task force in 1993 which led to the production of 'codes of Conduct and Accountability' (Department of Health 1994). Board composition in due course followed Cadbury recommendations with the chair and non-executives appointed by the Secretary of State (Clatworthy, 2000, p 168) and there was a requirement for audit, nomination and remuneration committees, even though remuneration was less of an issue in the public sector. The NHS project was one of mimesis, invention and ambiguity. As Harrison (1998, p. 140) observes, it was about the 'refashioning of public authorities in the image of the company board, the transformation of managers and members to executives and non executives'. It quickly became complicated because there never was (or could be) one standard public sector model when, for example, all members of school boards are non-executives. The absence of shareholders and of financial performance criteria like earnings or share price must also greatly complicate matters if, as we have argued elsewhere, public sector management is about meeting plans or targets and about maintaining the confidence of multiple stakeholders (Froud *et al*, forthcoming). Here "better governance" is inherently much more ambiguous in terms of accountability and performance. .

One final point is that the ends/means relations in governance were complicated enough in the original private sector practice of corporate governance which had multiple and emergent objectives. Thus Cadbury explicitly included the control of fraud (arising from a dominant individual) and the oversight of strategy (requiring appraisal of the business model and its prospects). Better (financial) performance was an emergent goal in successive governance reports as the classic reports put increasing emphasis on shareholder value. Thus, for Cadbury in 1992, governance was mainly about 'accountability' through NEDs as a way of avoiding corporate failures. As the later reports assumed the framework of accountability had been established, performance became the issue. Greenbury in 1995 writes a report on executive director's remuneration where the major background concern is 'fat cat' pay without performance. While, as we have already noted, Hampel in 1998 links governance and performance via the agency framework with an explicit shareholder value objective. Hampel also raises the issue of short term earnings pressure on management and the importance of resisting such pressures was highlighted by Sarbanes Oxley in the aftermath of the stock market crash of 2000 and subsequent company failures. The hope of improved (long term) performance was encouraged by the parallel developments in consultancy firms in the second half of the 1990s which offered internal packages for value based management (Froud *et al*, 2006, pp. 44-9).

Clearly, it is hugely difficult to provide any kind of attempt at overall and comprehensive policy evaluation of governance as an evolving practice with multiple objectives. Many objectives have proved difficult to achieve and some major objectives have clearly not been met. Strategic oversight, for example, does not seem to be effective because major company failures such as Enron or Northern Rock suggest strongly that NED dominated boards do not ask awkward questions about doubtful strategies and uncertain business models. Any balancing of successes and failures must be tentative and interim because new failures will be discovered when the conjuncture changes as they were after the 2000 crash which disclosed earnings manipulation and fraudulent. Against this background, in the next section, we prefer to concentrate on the one means/ends linkage between proceduralised governance and financial performance improvement in giant firms In our view, this focus is justified because the promise of improved performance was part of the original prospectus by the late 1990s and because the hope of improved performance stimulated first diffusion of governance and then disappointment with governance.

## 2. Disappointment and impossibilism: empirics on public companies

This section has two aims. First, it observes corporate governance is enveloped in an aura of disappointment mainly through literature review of systematic empiricist mainstream finance research which suggests strongly that many of the hoped for performance benefits of governance have not been delivered in individual public companies, Second, it uses our own descriptive statistics on groups of giant companies to argue that corporate governance is associated with impossibilism in the private sector because governance misrecognises the mechanisms and linkages around value creation in public companies. We argue that the prudence and animal spirits of investors generate larger returns and losses than the efforts of corporate management (with or without better governance) in groups of giant firms.

The aura of disappointment is strongest around "pay for performance" which was so attractive in principle for those who believed in agency theory, developed in the Greenbury and Hampel vision of how pay should be about incentivising managers and aligning their interests with shareholders. From this point of view, at the individual company level, a positive empirical relation between pay and financial performance either could have existed before governance because agency theorists and Hampel were only catching up with the way of the world, or a positive relation between pay and financial performance should quickly have been established because remuneration committees were empowered as proceduralised governance changed the world. Since the 1980s, a substantial body of academic researchers in mainstream finance and economics have used systematic empiricist techniques on large data sets and generally failed to find a positive relation which either preceded governance or a new relation which post-dated governance. The well established mainstream conclusion is that there is a weak or non-existent relation between pay and individual company performance[1]. This negative result is robust because it holds regardless of the methods used for establishing causal relations, the dataset or the measures of individual company performance. This point also emerges very strongly in Tosi *et al*.'s (2000) meta-study based on 137 separate previous studies of pay.

What about the effects of other governance mechanisms? Does, for example, increasing the number of NEDs or separating chair and CEO roles increase individual firm value and improve financial performance? Some researchers do find a positive relation between governance mechanisms and performance (e.g. Gompers *et al*, 2003, p.142) while others such as Bhagat and Black (2001, p. 231) report the negative result that, 'firms with more independent boards do not perform better than other firms'. But the positive correlations are ambiguous and inconclusive evidence of causal relations with proceduralised governance mechanisms as the independent driver of increases in share prices. The mainstream literature warns that omitted variables (such as industry affiliation) could be responsible for higher share price. The same literature also worries about endogeneity or the problem of reverse causality whereby firms with higher market value may have better governance. (Dennis 2001, p. 198) Thus, if we turn from studies to meta-studies and reviews of the literature, the agnostic general conclusion is that the performance effects of governance mechanisms are not proven. On the basis of a meta-analysis of 58 empirical studies, Dalton *et al* (1998, p. 269) claims that that, 'in general, neither board composition nor board leadership structure has been consistently linked to firm financial performance'. Dennis' (2001, p. 208) authoritative review of 25 years of corporate governance literature concludes more cautiously that, 'the existing evidence on many of the individual corporate governance mechanisms fails to establish a convincing link between these mechanisms and firm performance'.

By the mid 2000s indeed, the onward march of better governance is being slowed by the absence of any "evidence base" which justifies the spread of best practice mechanisms or the introduction of new mechanisms. Consider, for example, the issue of proportional ownership which involves enforcing one share one vote, outlawing dual class shares, pyramidal ownership, voting caps etcetera. This is an EU issue because the established British custom and practice of one share one vote is not present in mainland European countries where families and other blocs routinely use voting and non voting share systems to maintain minority control. For some two years, the responsible EU commissioner, Charlie McCreevey talked up this issue and the need to align voting rights with ownership. In autumn 2007, the commissioner then climbed down and abandoned reform (Financial Times, 3 October 2007) because there was, 'no compelling evidence' for one share one vote (McCreevey to Lords Select Committee, 6 December 07). The Commission itself had funded an academic review of the economic literature on disproportional ownership which concluded in a negative, convolute way, that the literature, 'has not yet provided a satisfactory answer to the question of whether disproportional ownership creates social costs by destroying firm value' (Adams and Ferreira, 2007, p. 1).

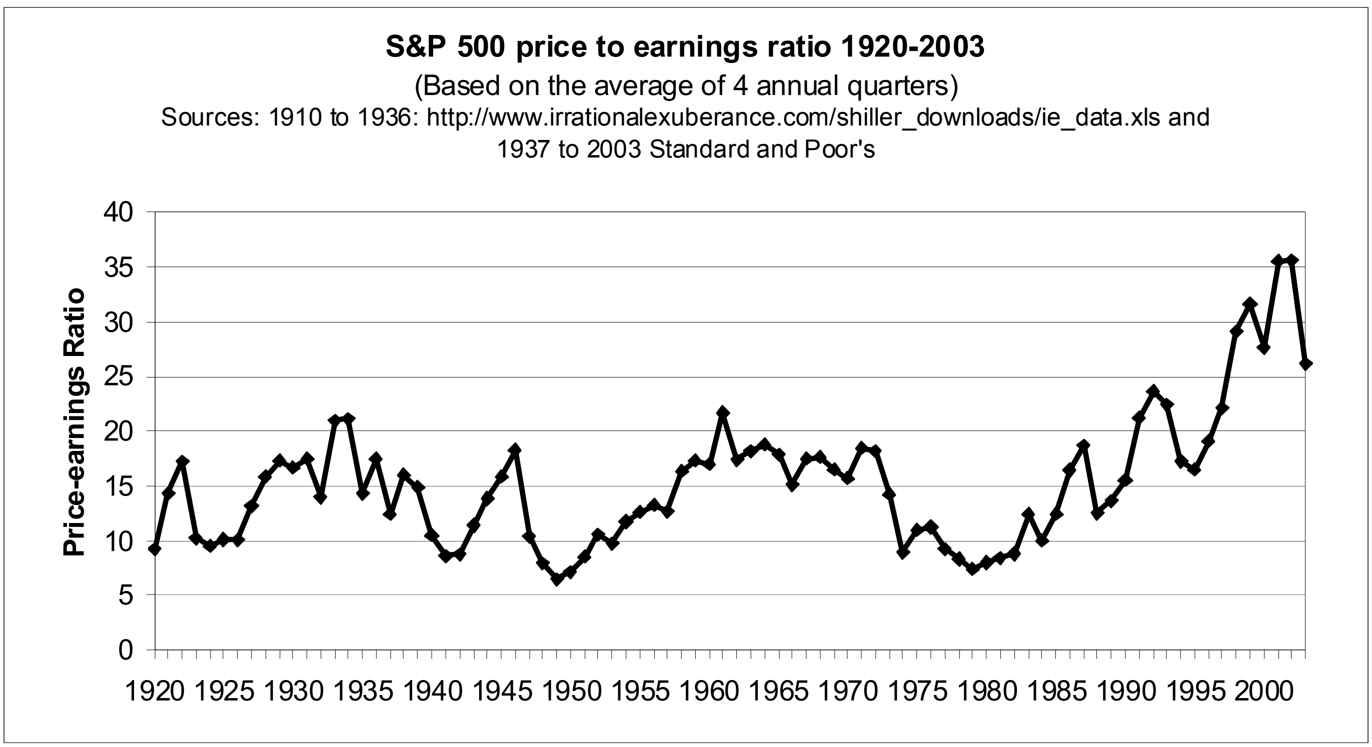
As the miasma of disappointment with governance envelops new and old mechanisms, it is important to stand back and reflect on the conditions of this disappointment. In our view, disappointment is inevitable because corporate governance is an impossibilist practice in giant companies because its means (NED supervision and incentivisation of management effort) cannot deliver its ends (including financial performance which supposedly increases shareholder value). This is because corporate governance misunderstands the relevant mechanisms of medium and long term value creation for the buy and hold investor with a diversified portfolio of giant company ordinary shares managed by professional fund manager intermediaries who are free to buy and sell individual shares as they adjust their portfolio in pension, insurance or mutual funds. This representation of the identity of the mass investor and his/her fund manager representative was implicit in the governance reports from Cadbury in 1992 onwards. And it remains relevant despite the rise of so called alternative investments like hedge funds and private equity. The value creation mechanisms are different when hedge funds, which take levered, short positions, can make money from downward movements in the market which lose money for the buy and hold investor. But the proportion of total funds allocated to so called “alternative investments” is relatively small, especially in the case of UK pension funds and the correlation with main market returns increases insofar as upscaled private equity increasingly buys companies from, and sells companies back, to the public market. If the frame about buy and hold, long run portfolio investors is still relevant, our argument is that governance exaggerates the role of management in generating value and underestimates the contribution of investors whose animal spirits and prudence are the variable and active determinants of value creation over periods of ten years or more.

Before we turn to the empirics on these issues, it is worth adding some preliminaries about how our descriptive methods in the back of this section on impossibilism are different from the systematic empiricist methods of the mainstream finance researchers in the front of this section on disappointment. Mainstream researchers have applied systematic empiricist methods and econometric modelling to large data sets with the aim of identifying general causal relations between pay or procedural mechanisms and superior performance. The rationale is that, if such relations were found, they would vindicate the technical practice of governance and encourage individual firms to adopt best practice mechanisms. Leaving aside the general question of whether and when such methods can move from observing correlation to identifying causality, in this specific case, years of effort by a whole community of researchers has failed to find positive relations and, as our quotes from literature surveys and meta studies suggest, their results are inconclusive or negative. There is also a fundamental issue about the focus of the mainstream question on the causal relations around better governance at individual company level and the neglect of issues about the aggregate results of proceduralised governance in groups of giant companies like the FTSE 100 and the S and P 500. If we are considering a buy and hold portfolio investor, the relevant issue for such an investor is not whether better governance produces better absolute or relative performance at individual firm level, but whether the general adoption of proceduralised governance since Cadbury has had a positive effect on group performance. For sure, the two issues are connected because an improvement in aggregate group performance could also be described as an improvement in the performance of the average or representative individual firm. But group performance is the most important consideration for the portfolio investor, especially when there is so much evidence mainstream evidence that fund managers’ attempts at stock picking seldom produce results superior to computers buying the index. Furthermore, group performance can be described directly in accessible terms without the use of arcane techniques which displace debate onto research design or models which have a strong *a priori* about how the economy works.

The stock market is an institution where ordinary share prices represent a value put on the stream of earnings generated by public companies. “Animal spirits” matter because variable investor expectations help to determine the price/earnings ratio and to shape price trends over bull and bear markets which can extend for a decade or more. The phrase comes from

Keynes, but his perception fits with accounts produced by practitioners like George Soros (1994) or Barton Biggs (2007) who in different ways emphasise the emotions of fear and greed that drive the market. The determinants here are techno-social and not simply psychological. Thus in the 1990s, valuation ratios were being technically pushed up a secular decline in interest rates which *ceteris paribus* should increase the (discounted) present value of future earnings. Equally, the decline in price inflation helped because historically P/E ratios have been low in periods of high inflation like World War I and II, and the 1970s. Socially, 1990s valuations were raised by a tsunami of retail investment money rolling into the market: annual contributions to life assurance, pension funds and mutual funds were running at 9% of GDP in the UK and 13% of GDP in the USA - a sum substantially more than corporate fixed capital investment (Froud *et al*., 2001, p. 78). All this interacts with, and is overlaid by, the presence or absence of what Allan Greenspan called 'irrational exuberance'. The net result is that the market value of a quantum of corporate earnings is highly variable and the evidence on the S and P 500 since 1920 shows a confusing alternation of high and low P/E ratios around the long run arithmetic mean of about 15 over eight decade

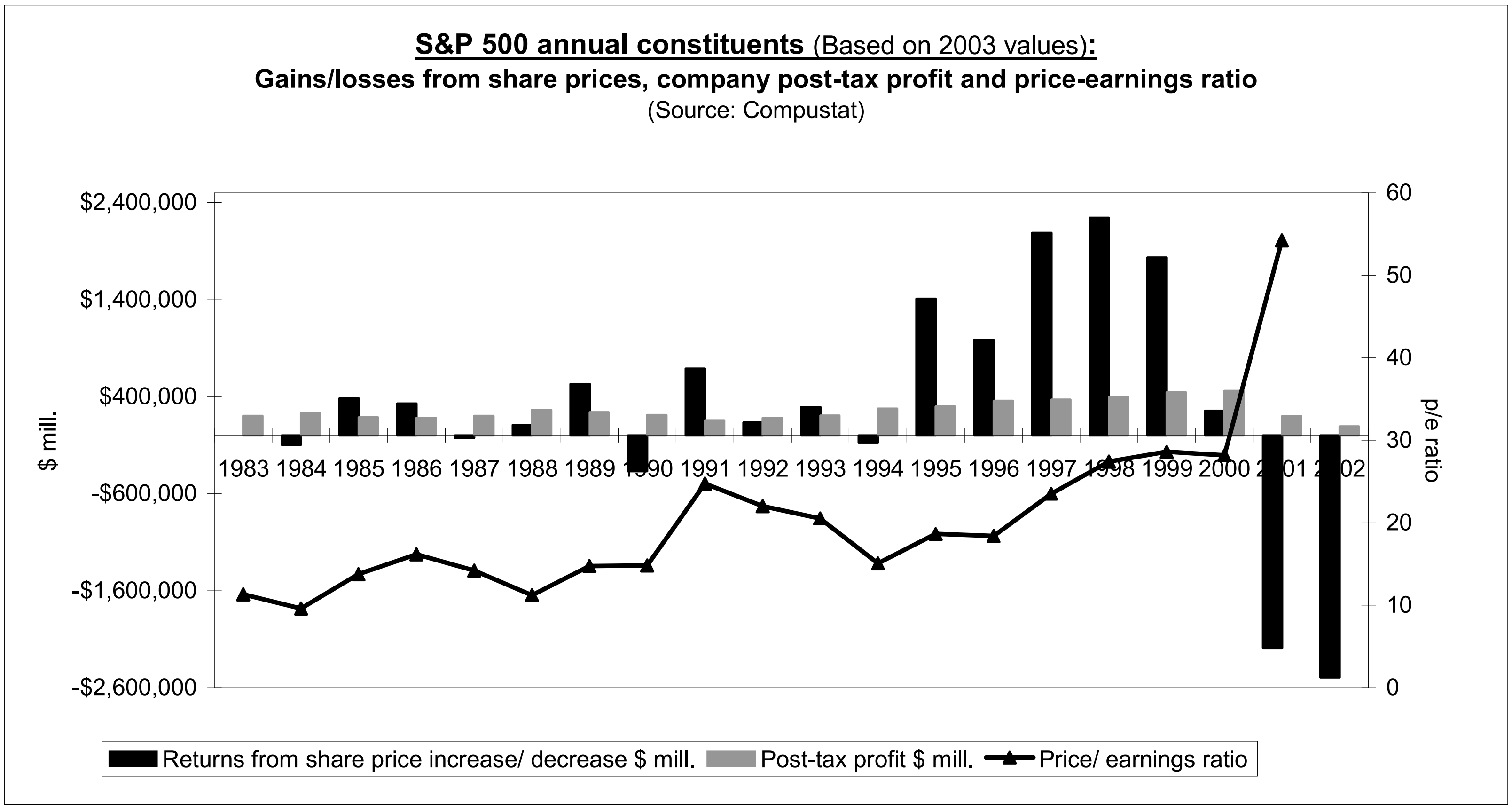
***Figure 1***




As figure 1[2] shows, the S and P 500 was trading at low P/E multiples of 8.0 or less in the late 1940s and early 1980s. But the intervening thirty years saw roller coaster fluctuations as the P/E doubled in the 1950s to a peak of more than 20 in the early 1960s after which it went sideways before halving in the 1970s after the first oil shock in 1973. Then, from 1979-99 the P/E ratio rose unsteadily for two decades until it peaked at more than 30 and has subsequently reverted to mean with P/Es of around 18 in 2005-7. This peak P/E valuation of 1999 was substantially higher than the levels of previous peaks in 1929 and 1961. Put simply, the unanticipated complication was that proceduralised governance was introduced in the 1990s in the middle of the greatest bull market of the twentieth century. In this context, any possible effects of better governance mechanisms on share prices at individual company level would have been overwhelmed by the rising P/E ratio which benefited all companies, just like a tide lifts all boats.

This point is reinforced if we consider the relative importance of increase in share price and of gains from (distributed) earnings in total shareholder return (TSR) in this period. At best better governance mechanisms may have had some influence on management effort to generate earnings while all the increase in P/E ratios represents a windfall gain for shareholders whose exuberance had a major influence on valuations.

*Figure 2*



S&P 500 annual constituents (Based on 2003 values):
Gains/losses from share prices, company post-tax profit and price-earnings ratio
(Source: Compustat)
$2,400,000
$1,400,000
$400,000
-$600,000
-$1,600,000
-$2,600,000
$ mill.
60
50
40
30
20
10
0
p/e ratio
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002
Returns from share price increase/ decrease $ mill.
Post-tax profit $ mill.
Price/ earnings ratio

The bar charts in figure 2 above show how gains (and losses) on share prices are consistently larger than earnings in the S and P so that 74.6% of total shareholder gains from 1983-2002 came from increasing share prices and the rising P/E ratio. The position is broadly similar in the FTSE 100 where 63.4% of TSR is accounted for by increasing share prices (Froud *et al* 2006, p. 78).

And yet earnings do matter because over periods of twenty years or more because reinvested distributed earnings lever up returns for long term investors who otherwise could only expect returns to vary cyclically as share prices floated up and down with the tide of changing P/E valuations. And if speculative investor exuberance drives valuation changes, returns are also levered up by the restraint of prudent long-term investors who do not withdraw earnings but reinvest them, so that returns are augmented over 20 years or more through the alchemy of compound interest on an increasing principal (just as returns would be augmented if the reinvestment was in government bonds not ordinary shares connected to streams of corporate earnings and management effort) Calculations of long run returns on equities, in the Barclays equity/gilts study and other standard sources are made on the assumption of reinvestment of earnings which remains realistic for mass investors like pension fund contributors who one way or another typically draw on an accumulated fund after several decades of contribution and reinvestment of earnings. In this case, we will shift to focus mainly on evidence about the FTSE 100 (noting parenthetically that the evidence on the S and P shows a similar pattern because on this issue again the story is the same for both groups of giant companies).

***Table 1: Value of £/$ invested in 1983 with and without dividend reinvestment***

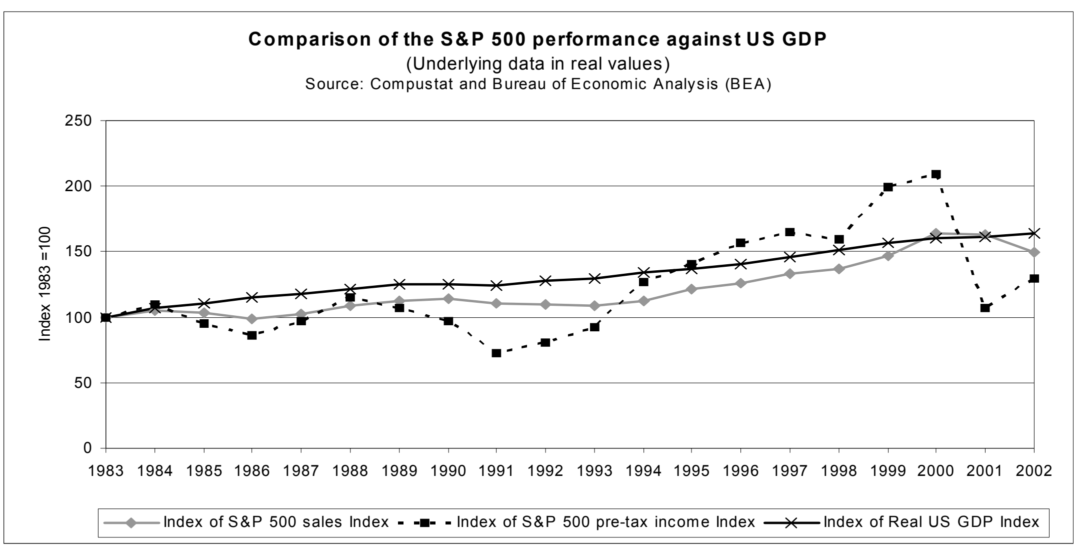
| | ***Total return without dividend reinvestment*** | | ***Total return with dividend reinvestment*** | |
|---|---|---|---|---|
| | ***FTSE 100*** | ***S&P 500*** | ***FTSE 100*** | ***S&P 500*** |
| | ***£*** | ***$*** | ***$*** | ***£*** |
| 1983 | 1.00 | 1.00 | 1.03 | 1.04 |
| 1984 | 1.30 | 0.96 | 1.38 | 1.04 |
| 1985 | 1.48 | 1.12 | 1.62 | 1.27 |
| 1986 | 1.84 | 1.27 | 2.08 | 1.49 |
| 1987 | 1.91 | 1.26 | 2.23 | 1.53 |
| 1988 | 1.94 | 1.31 | 2.36 | 1.66 |
| 1989 | 2.47 | 1.54 | 3.10 | 2.02 |
| 1990 | 2.03 | 1.38 | 2.66 | 1.87 |
| 1991 | 2.34 | 1.68 | 3.18 | 2.36 |
| 1992 | 2.66 | 1.74 | 3.73 | 2.51 |
| 1993 | 3.20 | 1.86 | 4.63 | 2.76 |
| 1994 | 2.89 | 1.83 | 4.32 | 2.79 |
| 1995 | 3.38 | 2.45 | 5.26 | 3.83 |
| 1996 | 3.78 | 2.89 | 6.09 | 4.60 |
| 1997 | 4.80 | 3.81 | 7.97 | 6.17 |
| 1998 | 5.44 | 4.80 | 9.39 | 7.89 |
| 1999 | 7.17 | 5.61 | 12.65 | 9.39 |
| 2000 | 7.14 | 5.73 | 12.88 | 9.69 |
| 2001 | 6.13 | 4.76 | 11.35 | 8.16 |
| 2002 | 4.65 | 3.65 | 8.92 | 6.38 |

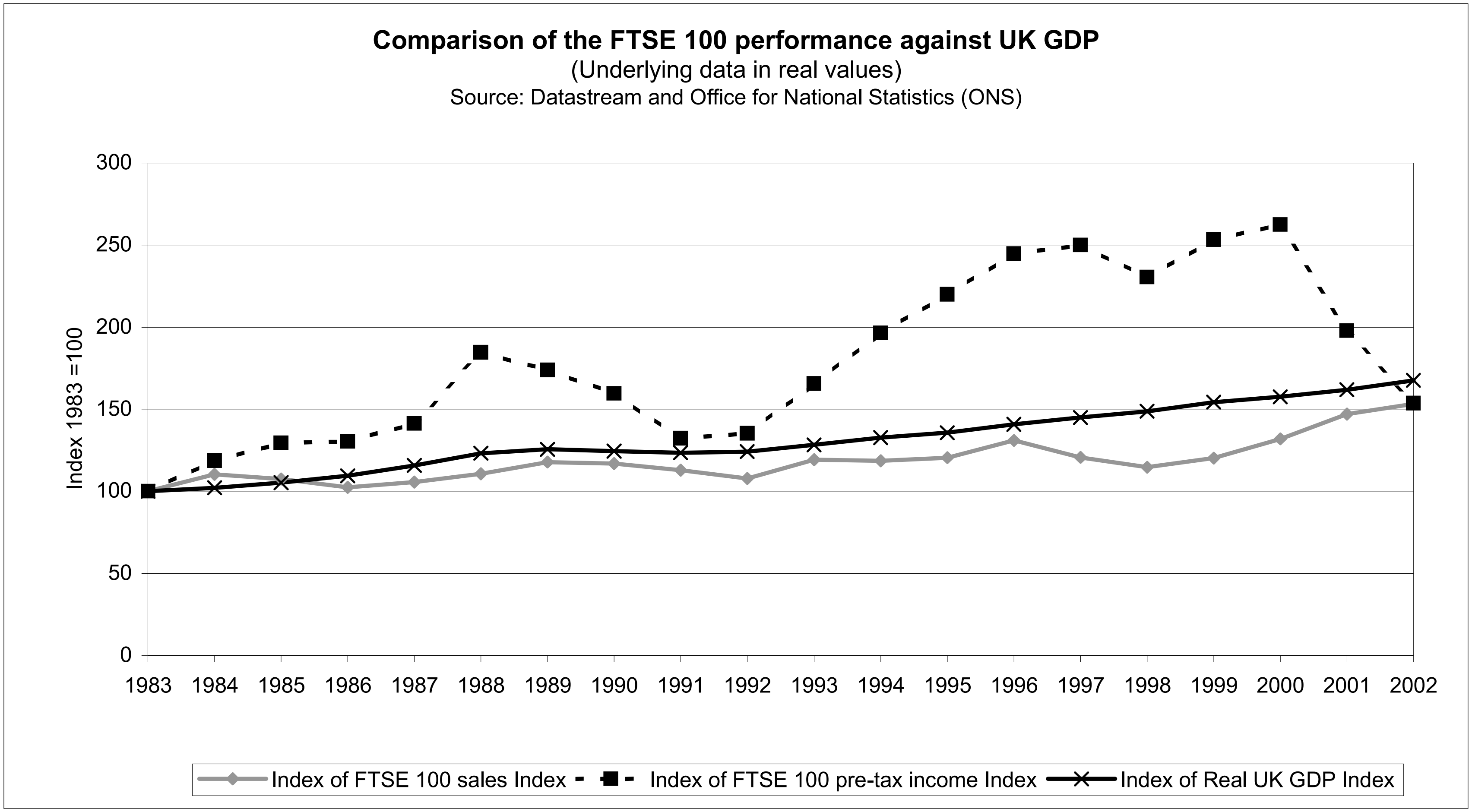
Sources*: Compustat and Datastream*

As table 1 shows, over the twenty years since 1983, reinvested dividends account for around half the total return to shareholders. Thus £1 invested in the FTSE 100 in 1983 was worth £8.92 with dividends reinvested but only £4.65 without dividends reinvested. The broadly comparable figures for the S and P 500 are $6.38 with dividends reinvested and $3.65 without dividends reinvested. The magical leverage of compound interest is such that the ratio between gains with reinvestment and without reinvestment increases quite spectacularly in the long run. Thus the Barclays equity gilts study calculates that £1 invested in the ordinary shares of the 30 largest UK companies of 1960 and reinvested in the 30 largest companies in subsequent years would (in real terms) be worth £21.67 without reinvestment of earnings and £184.98 with reinvestment of earnings. If the starting point is 1910, the comparable real figures are £81.44 and £6,641.09.

Everything comes to the prudent investor who reinvests and waits long enough, though in a long run of more than 90 years all investors will be dead and the practical investor must instead hope to cash out at the right time. But earnings do matter over shorter periods because earnings are the essential feedstock of value creation when earnings are the base on which the P/E applies its multiplicand and (distributed) earnings accelerate value creation through compounding. If earnings matter, then surely giant company management matters because the feedstock of value creation comes from management effort to grow profitable sales when increased earnings logically must come from either improved and/or sales volume growth. As we have argued elsewhere (Froud *et al*., 2006), management does other things as well, like producing narratives and strategic initiatives which perform purpose and achievement so as to influence share price, but we propose here to ignore the complications about narrative and performative managements and concentrate on a simplified mechanical case of earnings generating management. Whatever the arithmetical sources of value may be, surely corporate governance is correct therefore to focus on management effort and to introduce mechanisms which should direct and incentivise individual managers to raise their game on earnings as the feedstock.

As we have indicated above, for the individual investor (and his/her fund manager) with a diversified portfolio of giant company stocks, the relevant question is whether governance mechanisms do improve the financial performance of the whole group of companies in the FTSE 100 and the S and P 500. It is not clear how exactly one could rigorously "test" this proposition when testing would presumably involve specifying a counter factual world of public companies without governance But management's contribution to value creation through growing sales and margins can be descriptively contextualised by observing an important long run relation which holds before and after governance. In the long run, the sales and pre-tax earnings of giant companies tend to track GDP growth in their home country; alternatively, in the case where domestic growth is low as in Japan in the 1990s, then a group of high income (main market) countries are relevant.  Thus as figures 3a and 3b below shows, in the case of the S and P 500 between 1983 and 2000, US real GDP increased by 167.7% whereas S and P sales increased by 149.8% and pre tax income by 129.3%; in the case of the FTSE 100 over the same period, the correspondence is even closer with real UK GDP growth of 167.7% compared with FTSE sales growth of 153.4% and earnings growth of 153.7%.




Comparison of the FTSE 100 performance against UK GDP
(Underlying data in real values)
Source: Datastream and Office for National Statistics (ONS)
Index 1983 =100
300
250
200
150
100
50
0
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
Index of FTSE 100 sales Index
Index of FTSE 100 pre-tax income Index
Index of Real UK GDP Index

The empirics suggest that giant firm management is generally less about value creation and more about a lien on GDP growth in the high income countries because, in product market terms, the FTSE 100 or the S and P 500 is a portfolio of leading consumer brands and industrial goods whose earnings steams are endogenous to growth. When the typical FTSE 100 or S and P 500 company employs around 40,000, the size of these giant companies makes it generally hard to sustain high rates of organic growth without merger and acquisition which has powerful inbuilt risks. Against this observed background of structural constraint, it is inherently unlikely that governance mechanisms would be powerful enough at group level to shift the structural limits on the financial performance of a whole group of firms like the FTSE 100 or the S and P 500.

In sum, after this consideration of the sources of and constraints on value increase, the verdict has to be that corporate governance is impossibilist because it asks for what cannot be generally attained through management effort; by implication, corporate governance as hygiene and box ticking is not displacement but the substance of the activity. The impossibilism can be referred back to a fundamental misrecognition of the mechanisms and linkages around value creation which arose when the loose agency theory metaphors about management incentives and alignment of interests were appropriated in proceduralised governance for value creation. Put another way, the problem with corporate governance is that the stock market is much more of a Ponzi scheme than Cadbury and mainstream finance academics admit. Charles Ponzi in 1920 took nearly $10 million of American investors' money by selling promissory notes which offered $15 for every $10 deposited for 90 days. Instead of making the gains by trading in postal reply coupons, Ponzi fraudulently used new deposits to pay off established investors (Sobel, 1968, Kindelberger, 1996). Returns from ordinary shares in giant companies on the stock market depend not on covert fraud but on an eager self-deception by investors and their fund managers. But, just as in Ponzi's scheme, the ultimate driver of gain and limit on sustainability, is the mass expectation of high returns backed by flows of funds which can only for a while turn promise into self fulfilling prophecy.

## 3. Impossibilism in the public sector: the case of the BBC ?

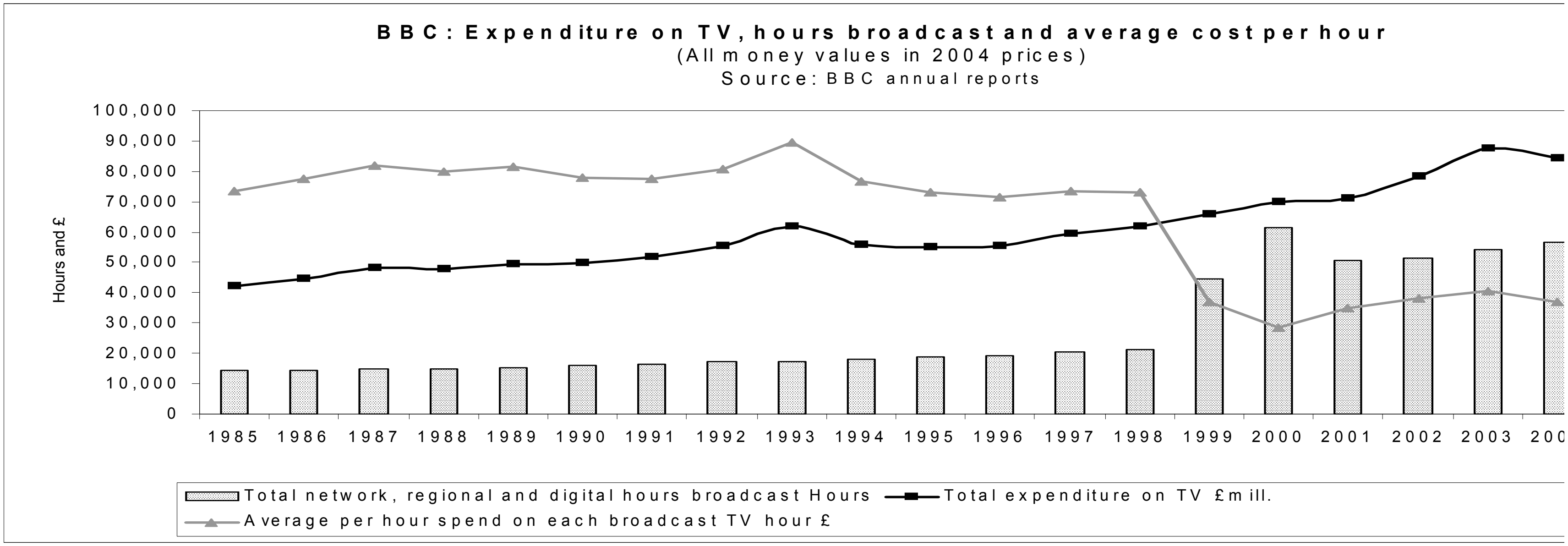
One of the more interesting puzzles is how corporate governance plays when it is transposed into the public sector. The obvious difference is that the public sector has a broader set of stakeholders with diverse interests to placate, so, despite the rhetoric of 'public value creation' which has become the leitmotif of BBC governance reform, it is clear there is no one single metric like earnings or shareholder value towards which governance can be geared and against which success measured. However, the general differences between private and public sector should not be exaggerated and the argument of this section is that overall the (impossibilist) effects of governance may not be so different.

It is certainly true that there are considerable differences between public sector organisations which prevent us generalising about groups of public sector organizations as we did for giant firms in the FTSE 100. But this is not an insuperable problem if we believe in mixed methods as way of extending the field of the visible. So, in this section, our point about the effects of governance is demonstrated by switching from descriptive group statistics to general business model arguments plus a case study of the BBC which together show us how governance can create a kind of "more for less" impossibilism in the public sector. We deal with public sector business models and the BBC case at greater length in a forthcoming article (Froud *et al*, forthcoming) and this section considers the effects of governance reform at the BBC more narrowly. The results of one case study are suggestive rather than conclusive given the singularity of the case, but equally the cases cannot be dismissed when the argument starts from business model generalities. As mentioned, public sector organisations are different from the giant private sector firms because they have diverse outputs which cannot be reduced to one common denominator of earnings or share price for the shareholder. Hence whilst the BBC is tasked with delivering 'public value', this is measured by various organization specific metrics like size of audience, quality of programming, impact ratings and value for money; while at the same time the BBC is charged with not duplicating or directly competing with output produced by the market. But, if we consider these issues in the most general terms, the generic business model requirements for financial viability and external credibility in public and private sector are different but related. In business model terms, public sector organisations have a cost recovery requirement because their financial viability depends on keeping expenditure at or below income while delivering a service, even if they are not charged with generating a profit surplus. As for external credibility, all public and private organisations are embedded within socio-political networks of obligation where key stakeholders make influential judgments about firm performance, and those judgments then have important feedback repercussions on key variables such as share price in the private sector or the assessment of value for money in the public sector. Interestingly, many of the private sector differences between varieties of capitalism in different times and places, or between public and private sector, can then be conceptualised as differences about what kinds of stakeholder claims are legitimated and empowered. From this point of view, proceduralised governance in the private sector could be described as an attempt to use NEDs to empower the fund manager who speaks for the (absent) shareholder. Our argument is that, in the political context of "new public management" (NPM), public sector governance is an attempt to use NEDs as part of a process of creating and empowering a multiplicity of new stakeholders who speak for the (absent) consumer.

The recent history of the public sector is that NPM initiatives, often incorporating borrowed private sector governance techniques, make new stakeholders more demanding. The recent history of the public sector has been the adoption of private sector models of management and a move away from the ethos of public administration or professionalism (Box 1999; Newman and Clarke 1994; Keen and Murphy 1996). In particular this change has brought a new rhetoric of audit, inspection and review (Hood *et al* 1999). It has also introduced new performance metrics like value for money which purport to operate in the interests of an absent consumer (Ferlie *et al* 1996); although this process has been rolled out unevenly across the public sector at home and abroad (Pollitt and Bouckaert 2000). The distinctive social aims of public service provision (plus efficiency) are increasingly specified and operationalised by regulators and inspectors acting as proxies for an absent consumer who has no direct representation through political process or market action (Miller, 2005). The consequence has been a vastly expanded apparatus of surveillance and control within the public and private sectors. Power (1997) constructs this as part of an 'audit society' and Moran (2003) reads it as part of an expansion and mutation in the form of the 'regulatory state'. Proceduralised governance, with supervisory boards of independent members, fits very well into this process of making public sector management accountable.

The BBC is a case study of how this plays when a public sector organization is "governanced" – i.e. when it is called upon to deliver quality services without forethought or understanding of the financial preconditions necessary for that outcome. Corporate governance in the public sector has increasingly demanded that public sector managers do the impossible in terms of creating value for money (i.e. doing more for less) to benefit the consumer, just as giant firm managers are asked to do the impossible in terms of raising earnings and share price to benefit the shareholder.

The first step in this argument is to consider the secular problems about balancing revenue and expenditure which resulted from the BBC's decision to become a multi channel digital broadcaster. This decision suited the government which wanted a champion for digital switch over and it suited the BBC which feared marginalisation in a multi-channel world where the legitimacy of its licence fee would quickly erode as BBC1 and BBC2 lost audience share. By going digital, the BBC as a two channel producer added two additional niche channels (BBC 3 and 4) two childrens' channels (CBEEBIES and CBBC) and two news and current affairs channels (BBC News 24 and BBC Parliament). This expansion resulted in the sudden growth of programming hours from around 21,143 hours in 1998 to over 56,823 by 2004 (figure 4), Despite the expansion of commercial services, by 2004, 74.3% of the BBC's revenue still came from licence fee, a flat rate tax on households at a rate determined by the Department of Culture Media and Sport. As licence fees were not increased to accommodate these new digital programming demands, the inevitable result was that the BBC's average expenditure per programming hour declined in real terms from £73,009 in 1998 to just £36,966 in 2004.


BBC: Expenditure on TV, hours broadcast and average cost per hour
(All money values in 2004 prices)
Source: BBC annual reports
Hours and £
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
Total network, regional and digital hours broadcast Hours
Total expenditure on TV £mill.
Average per hour spend on each broadcast TV hour £

Some of the extra digital hours, like rolling news, were inherently very cheap, but inevitably part of the adjustment had to be made with repeats from the BBC's back catalogue in peak viewing hours. BBC2 produced 699 unique programme titles in 1993 but this had fallen to just 439 in 2002 (Bergg, 2004, p. 11), while by summer 2005, almost 1 in 10 programmes shown on BBC1 during peak hours was a repeat (The Guardian, 19 July 2005). The BBC also turned to filler material such as cheap format reality TV shows on all channels including BBC1 and BBC2, and for both this and the repeats the corporation was condemned by the then Board of Governors (BBC Annual Report and Accounts, 2004, p. 27; BBC Annual Report, 2005, p. 17, 19 and 24).

In 2006, when its Charter was renewed, stakeholder demands were articulated and raised as the BBC was subjected to preoceduralised governance through a new supervisory trust and subjected to re-regulation through OFCOM. The Hutton Report had explicitly questioned the ability of the BBC's old style Board of Governors ability to supervise management and the DCMS (2006, para 5.7 and 5.11) subsequently endorsed the verdict that the BBC had lagged behind, 'the major changes in private sector corporate governance structures in the last decade'. The 2005 Green Paper Review of the BBC's Charter recommended the establishment of a new 'Trust' or Cadbury style supervisory board which would supervise an Executive Board (DCMS 2005, p. 64). The 2006 BBC Annual Report and Accounts (p.7) explained that this Trust would now be, 'the body responsible for the strategic direction of the BBC (and) will scrutinise the strategies put forward by the Executive Board', enforcing this with 'Purpose Remits' which set out objectives for the Executive Board and issue 'Service Licences' detailing the budget and remit of each BBC service (p.9). The regulatory agency OFCOM was also granted new powers to conduct a public value/market impact assessment of any new commercial venture by the BBC under the principle that the BBC would only be allowed to progress the project if the public value added by the service outweighed any negative market impact. The BBC's programming obligations (and the new measures of stakeholder credibility) were established through a 'Performance Measurement Framework' whereby the BBC's performance would be assessed on four criteria: reach, quality, impact and value for money. The 2007 *Delivering Creative Future* document, written by the Trust, articulated new demands on the BBC to, 'enhance quality output in Journalism, Drama, Knowledge and Comedy programming', which would include news, current affairs and educational programmes (Financial Times 20 August 2007).

In formulating such demands, the Trust was impossibilist because the secular problems about revenue per programming hour had been aggravated by the government's imposition of an adverse settlement on the license fee earlier in 2007. With the BBC discouraged from expanding commercial ventures to generate earnings, the BBC claimed it required an increase in the licence fee of RPI plus 2.5% going forward if it was to deliver on quality programming and its social obligations. In January 2007 the government unveiled a complex six year settlement which was formally in line with inflation (DCMS statement, 18 January 2007) but meant real revenue cuts when deflated by the retail price index. The BBC was at the same time required to spend on the government's regional and social objectives through moving some operations to Salford (BBC press release, 18 January 2007) and supporting the digital switchover of 7 million unwaged households (BBC, Q and A 17 September 2007). The disappointing licence fee settlement and these additional expenditures leave the BBC with an estimated £2.2bn financial black hole (Financial Times, 19 October 2007) and a commitment to enhance quality output.

Within government constraints, Trust led impossibilism was marked by internal contradictions when the license fee settlement required cost reductions through sacking which will almost certainly compromise the BBC's ability to meet quality requirements. BBC management envisages the elimination of 2,500 positions to meet 'efficiency' targets (BBC press release, 10 October 2007) and some of the job cuts affect prestige operations which are central to the BBC's established reputation and new quality targets. Thus nearly one in three posts were eliminated from the BBC Natural History Unit at Bristol which had produced programmes like Planet Earth; while the cuts in news will affect flagship programmes like the Radio 4 Today programme or BBC Newsnight which, according to Jeremy Paxman, faces budget cuts of 20% over the next 5 years (The Times, 25 September 2007). The task of BBC executive management was to work out the detail about who and what had to go. Apart from sackings, there was the necessary business of shuffling repeats and filler between slots so management could claim it had met meaningless targets on prime time repeats on BBC 1 and BBC2 by concentrating repeats in other slots and recycling programmes from BBC4 to BBC2 (Financial Times, 4 July 2007, 18 October 2007). The consequences of these decisions will no doubt be critically scrutinised by the Trust and OFCOM and cannot be good for the credibility of the BBC amongst the political classes or the licence paying public offered 'a chance to watch again'

The BBC probably does represent an extreme case of "more for less" at the behest of new stakeholders because of the special circumstances about the expansion of digital hours without any compensating revenue increase but with proceduralised governance and re-regulation. It is nevertheless highly suggestive. Cadbury style better governance in the public sector is of course just one more reform by metaphor and mimesis in a public sector overwhelmed with reform by metaphors. And different metaphors will be implemented and will fail in different ways according to the circumstances and needs of specific activities. Thus, we would not, for example, wish to discount the insight of Ham (2007) who argues that the metaphors of competition and choice have had specific effects in health care where they have encouraged a preoccupation with cheap one off treatments which does not engage with the whole health needs of the chronically infirm which require collaboration and clinically integrated systems. But, there are also cross activity questions about whether and how governance in the public sector has generally empowered new stakeholders to pursue more for less impossibilism.

## 4: Sincere lies and the discrediting of institutions.

The argument and evidence in the two previous sections show that corporate governance is impossibilist in giant public companies in the private sector on the evidence about S and P 500 and FTSE 100. They also suggest that governance may be impossibilist in the public sector where more research is definitely required. Governance is an impossibilist technical practice in a fairly precise sense insofar as its proceduralised means are inadequate to the half theorized end of delivering shareholder value in giant firms or maintaining stakeholder credibility in the public sector. In understanding this kind of oversold and ineffectual technical practice, the Marxist Louis Althusser's concepts for reading Marx are less relevant than those of management researcher Mauro Zilbovicius (1999) on the diffusion of the Japanese production model in Brazil. In analysing Japanese methods in Brazilian factories Zilbovicius emphasizes not adopted or adapted models, but the role of sincere lies ("menteras sinceras"), borrowing the sharp phrase from a song lyric on Cazuza's 1984 album 'Menor Abandonado'. Sincere lies are what the well meaning tell and the good natured believe. They are not and can not be what is going on (or even what could happen) inside any company because they misrecognise actors, mechanisms and levers of advantage. The tensions created by sincere lies can only be resolved in one of two ways, as the sincere lie is either endorsed and/or found out. The sincere lie is endorsed when a bogus success is announced after insiders have selected the indicators and time period so that the techniques are vindicated. The sincere lie is found out when a discrepancy is discovered often by outsiders or successors who usually have no personal investment in the success of specific techniques.

All this is in itself interesting and helps to explain the weasel character of much contemporary corporate management and public life. But, if corporate governance is more sincere lies, why does this matter? The short answer is that it matters because post-Cadbury proceduralised governance inflates expectations about management and then, when the sincere lie is found out, the discrepancy tends to discredit not only the particular managements but institutions such as the giant firm or public corporation. The proceduralised governance of operations, as with academic quality control in universities or clinical governance in hospitals may have positive effects on the performance and reputation of the relevant professionals or their institution; because this kind of governance of operations not only performs the control of workforce prerogatives but can offer voice or redress for injured parties outside the law But, when in the Cadbury sense, governance means board level control of strategy and management, it has inflated general expectations of what management can do. Thus, as we have seen, PLC managers in the FTSE100 could and should deliver more value for shareholders and BBC management could and should avoid cheap filler and repeats while producing quality output which is all (by one criteria or another) excellent. The discrepancy between promise and outcome in the frame of proceduralised governance then creates disillusion not only with underperforming management but also with problem institutions such as giant firms or public corporations. This opens the way to a cycle of endless reorganization and restructuring which seldom reaches its financial or physical performance targets and, incidentally inflicts collateral damage by undermining the internal social settlement of the giant firm or public corporation whose outputs have traditionally included training, job security and pensions for old age.

To observe the unwarranted discrediting of institutions like the giant firm is not to rubbish governance, nor to endorse an Oakeshottian conservative defence of the status quo. If we recall its multiple objectives, post Cadbury governance may be an effective bulwark against Maxwell type corporate frauds by a dominant individual; but our point is that such benefits comes at considerable cost if governance is also sincere lies whose effect is to discredit the public company as an institution. At the same time, we do not of course make assumptions about the necessary futility of institutional reform and redesign as Oakeshott did in his critique of rationalism in politics. The point of our argument is rather that the impossibilist practice of proceduralised governance for better performance represents an irrationalist substitute for politics about the distribution of limited resources, and that the practice has unintended cyclical consequences as the failure of governance then becomes part of the case for the next instalment of reform. So, for example, in the British panic about private equity in the first half of 2007, private equity general partners publicly justified their activities by arguing that private equity could solve the agency problems of the PLC (which governance had not fixed). Thus, the old language about governance is used for new purposes on the BVCA web site which argues that, 'in some circumstances, the ( private equity) governance structure and the alignment of interests between owner and manager makes it easier to turn round companies or develop them' ( BVCA, FAQs). We would be happy if our article encouraged greater scepticism about such arguments. Because the objective of social responsibility remains laudable even if governance promises more than it can deliver; and it would be perverse if the apparent failure of proceduralised overnance licensed more social irresponsibility.

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[1] See also Bruce and Buck's (2005) review of empirical findings of pay which finds similarly mixed results.

[2] NB: the data for figure 1 is reworked from Shiller's website who calculates p/e by summating the earnings for the previous 120 months, averaging the returns and then dividing the latest year's market price. Therefore Shiller is using the average of 10 years earnings which broadly coincides with the economic cycle. Our figure uses Shiller's raw data to construct a table for a *year on year P/E ratio*.

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