ENTERPRISE MODELS AND THE EU AGENDA

Donald Kalff

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Abstract

The EU is leading the world with its roadmap for companies – the Sustainable Industry as part of the Green Deal, the EU Climate Target plan for 2030 and the New EU Industrial Strategy. At the same time, in pursuit of these crucial objectives, the Union is heavily dependent on the contribution of the private sector.

The question is whether companies are equipped to follow this path and take on the associated responsibilities. Hurdles that so far received little attention now present themselves in the realm of governance and management, organisation structure and culture as the major determinants of corporate behaviour.

This paper argues that the dominant enterprise models, the shareholder model and the stakeholder model, both serve as barriers to the shift from growth-oriented to sustainable, resilience-oriented capitalism. It stresses the need for alternative models and sketches the contours of a new competitive enterprise model that is firmly rooted in values continental Europeans share. It will be called the EU Model. Finally, it proposes an EU agenda for a level playing field, because competition between models should be encouraged.

The day has come for politicians and policymakers to no longer limit themselves to rubberstamping corporate governance codes. They must actively engage in discussions about how the private sector organises itself. Bravery will be rewarded.

Donald Kalff is a former Manager of Royal Dutch Shell and a former Director of KLM. At present a serial entrepreneur in biotech and ICT.

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1. Introduction

Enterprise is the workhorse of the modern economy. It is by far the most important source of economic value; societies use enterprise to pursue social and political objectives. Economic value is created by improving the productivity of existing businesses, by expanding them and by building new businesses around new products. The cast-iron law of business economics is that products and services must be sold at a margin that is large enough to cover all fixed and variable costs, including the real costs (interest rates and dividends) of the capital that is required to sustain the company and to invest. These real costs are of course dependent on the risk perceived by the providers of capital and are determined by capital markets. A surplus is called the free cash flow. Value creation is defined as an increase in the free cash flow.

No escape, here, for the many critics and opponents of capitalism. Capital has a cost that needs to be absorbed by enterprises, just like the costs of materials, services, and labour. That said, many proponents of unfettered capitalism have found ways to keep the cost of capital artificially high, which is also undermining capitalism.

By implication, enterprise is also the workhorse of the EU's Green Deal, the Digital Economy, and the Industrial Strategy. Put simply: enterprise must change course by phasing out products that undermine the EU's objectives in these three fields. At the same time, enterprise must mobilise its capacity to innovate and create new products that befit the new economy. All this requires unprecedented levels of investment under uniquely uncertain circumstances. The risks have never been greater. Yet if enterprise fails the EU will fail. It is inconceivable that a turnaround will be achieved without the commitment and leadership provided by enterprise boards and without the stock of intellectual property, know-how, organisational skills and financial resources built by enterprises over decades.

Unfortunately, the starting point leaves a lot to be desired. Where enterprise still enjoys the reputation for decisiveness, effectiveness, and efficiency, particularly with civil servants and politicians, it has failed the economy significantly over the past decade. Under extreme benign economic and political circumstances investment growth and productivity growth were inexplicably low, innovation was unevenly distributed, and hidden and registered unemployment, despite progress, was stubbornly high.

There is every reason to explore the extent to which the key features of enterprise have contributed to this poor performance. These are: the position of enterprise in the social economy, governance and management, corporate organisation, and corporate culture. And going forward: the extent to which these features help or hinder the demands of the Green Deal, the Digital Economy, and the new Industrial Strategy. The present Covid-19 and ensuing economic crises heighten the urgency of fundamental change.

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Two enterprise models dominate the scene, the so-called shareholder model and the stakeholder model. In the following two sections we will show that the basic features of these models double as fundamental flaws. No apologies are offered for lack of nuance. The objective of the exercise is to draw the clearest possible distinction with the EU model.

2. The shareholder enterprise model

At face value, the shareholder or Anglo-Saxon enterprise model appears to be a highly appealing way to conduct business. The underlying rationale is clear: shareholders are the modern incarnation of the entrepreneur; because they put their money at risk it is considered morally just and economically wise to place the pursuit of shareholders' interests at the forefront of corporate rules and practices. This means that the return on equity (ROE) becomes the overriding corporate objective. The underlying (wrong) assumption is that forever-rising profits per share are crucial to a higher stock price and shareholder return. This assumption creates several impediments to radical change in support of the EU objectives.

First, all things being equal, the push to optimise profits per share acts as a drag on investment. Bookkeeping conventions dictate that R&D and start-up expenses are not investments but costs and reduce reported profits. Where expansion of capacity is inescapable, acquiring a competitor is more attractive because acquisitions accounted for on the balance sheet do not burden the profit and loss account in the short run as they can be amortised over many years. As most acquisitions do not produce the intended benefits, much economic value is destroyed (Schilling, 2018). Furthermore, the key role of the profit per share underpins the extensive stock buyback programmes, Lowering the denominator of a ratio, profit per share, pushes the value up, which is an expensive hobby given the exploding stock markets. Share buy-backs do not add any economic value and have negative consequence for the solvency of the company.

Cost-cutting is now a permanent feature of corporate life and both a disincentive for the company to invest in their employees and a disincentive for employees to invest in their jobs.

Second, the safest way to increase profit in the shortest possible time is cost-cutting – often synonymous with manpower reduction. This practice can however break up valuable internal, external, commercial, and operational networks and destroy intellectual property in the broadest sense of the word, including tacit knowledge embedded in the company, for example. Cost-cutting is now a permanent feature of corporate life and both a disincentive for the company to invest in their employees and a disincentive for employees to invest in their jobs.

Another policy that flows from the emphasis on profitability is the defence of margins on existing products. This contributes more to profits and is far less risky than introducing new products, which takes time and resources and exposes the company to new competitors. Lobbying regulators to maintain barriers to new entrants is a time-tested approach. Mergers and takeovers also help because they create cost-cutting opportunities and strengthen market positions.

The popularity of all these policies is greatly enhanced by the way management is rewarded. Up to 80% of their considerable remuneration package is variable. Managers act perfectly rationally by curtailing innovation and by postponing or reducing investment. As a result of those few simple mechanisms the enterprise is hollowed out and robbed of its capacity to take risks, which is the hallmark of entrepreneurship. A short-term orientation is not a perspective or an attitude but a function of the chosen enterprise model.

Third, very typical for the shareholder model is the emphasis on personal leadership. Shareholders believe that only individuals can guarantee consistency in corporate policies; that only individuals can inspire the rank and file and that only individuals can be held accountable. This helps to explain why in almost half of the companies, particularly US-headquartered ones, the chairperson and CEO roles are filled by one single person. It also explains why managers throughout the enterprise are supposed to exercise full control over their subordinates and be fully accountable for the performance of their units even as, in most cases, markets, competitors and regulators determine outcomes.

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Endowing the CEO with such power has three other major disadvantages. Each new CEO feels entitled and is granted the opportunity to build their own team, replacing anywhere between 20% and 80% of the top management. All this to be assured of a loyal following. Is it also considered self-evident that the new CEO may break up whatever his or her predecessor has wrought and that s/he is even supposed to put her personal stamp on the company. Most new CEOs negotiate very considerable write-offs, justified or not, to start with a clean sheet. The continuity that is required to implement green targets, to invest in ICT and to restructure the company suffers as a result. Third, non-performing CEOs are very difficult to dislodge; precious time is lost when urgent action is required.

Fourth, the need to meet the profit per share target communicated to the markets and the perceived need for tight managerial controls puts maximum emphasis on quantitative financial and operational indicators and targets. This is a considerable and costly distortion of reality, as if the pursuit of qualitative objectives cannot contribute to value creation.

Sticks and carrots are introduced for each division and business unit down to the individual employee. This provides strong incentives to negotiate reachable targets (so-called key performance indicators, or KPIs) with the next higher echelon at the expense of other units. It also creates fierce competition for resources to meet the targets. In the name of rationality, internal competition for investment budgets, talent and other resources is encouraged. Risk is toxic and needs to be transferred to colleagues and partners. All this results in low-trust organisations, which is far from helpful as the availability of inspired individuals and fruitful, proactive cooperation is needed now more than ever. Such companies are poorly equipped to engage with government agencies and small and medium sized commercial partners. They are totally incapable of dealing with micro companies. These are key requirements as cooperation is fundamental to the Green Deal, the Digital Economy and the Industry Strategy.

All this in line with astute observers pointing to the fact that companies that are guided or bound by shareholder interest are not in the best position to contribute to long-term challenges such as those posed by global warming (Dahlberg and Wiklund 2018).

As observed, inter alia by Robert Anderson IV (2016), the law of corporate governance is "heading for a showdown" after, in recent years, a growing chorus of commentators has argued that "short-term investors, especially short-term activist institutional investors, wield too much influence over corporate governance". The core theme of these articles is that there is a "stark difference" between the interests of short-term and long-term investors:

> "[s]hort-term shareholders prefer managers to maximize short-run share price, while long-term shareholders prefer to forego immediate gains in favor of maximizing long-run shareholder value." (Hazen 1991).

This is even truer of institutional investors. As Kahan and Rock (2007) put it, short-termism "presents the potentially most important, most controversial, most ambiguous, and most complex problem associated with hedge fund activism", giving rise to the related accusation that hedge funds induce managerial short-termism.

The issue is reportedly worsened by the existence of legal provisions and corporate policies, especially in the US, which tilt the balance towards short-term shareholders. They include: dividends and share repurchases, motivated by institutions' desire to increase 'short-term earnings' by cutting research and development; and the combination of leverage returning cash to shareholders. Karmel (2004) observes that during the 1980s,

> "the pressure for high overall return by institutional investors in U.S. corporations resulted in an unhealthy leveraging of U.S. corporations to meet that demand. Funds were borrowed to pay dividends to shareholders, in the form of ordinary cash distributions, share repurchases, or takeover premiums" (Anabtawi 2006).

Grossman (2010) further argues that myopic markets end up penalising managers for long-term investment, pressuring them to govern for short-term objectives.

In summary, the favoured policies of listed companies destroy economic value in the name of the shareholder. The shareholder model does not serve the economy and does serve not a society that is facing extraordinary challenges.

3. The stakeholder enterprise model

Like the shareholder model, the stakeholder model has considerable, albeit superficial appeal. Who would be against the appropriate protection of shareholders and employees? And who wouldn't, given their legitimate interests, be in favour of the fair treatment of suppliers and customers? Intuitively, companies that feel a responsibility to the communities in which they operate deserve support. However, the fundamental flaw of the model is that companies operate in a forcefield of demands expressed by a variety of professionalised interest groups that seek to change the company, without accepting accountability for the unintended consequences and the hidden costs that come with the fulfilment of their demands. Stakeholders manifest themselves by exercising veto power over corporate policies and so act as a drag on corporate decision making. Most of them lack the expertise or are not interested in developing and discussing viable alternatives.

The fundamental flaw of the model is that companies operate in a forcefield of demands expressed by a variety of professionalised interest groups that seek to change the company, without accepting accountability for the unintended consequences and the hidden costs that come with the fulfilment of their demands.

Companies that have embraced the stakeholder model are vulnerable in that they must engage interest groups with or without legitimate claims. They must cope with the many interrelated issues and continuously shifting coalitions around these issues. All too often, companies find themselves in untenable positions when stakeholders present contradictory demands.

Stakeholders such as trade unions, professional associations, regional and local governments, and special interest groups seek to institutionalise their position to strengthen their bargaining power. At the same time, stakeholders feel compelled to cause occasional disruption to augment the credibility of their threats during future negotiations. They also need to serve their base. The professional staff of stakeholder offices also have interests to defend – employment being the most obvious one, which muddies the water.

Many stakeholders have different channels to make themselves heard. Trade unions, for example, negotiate collective labour agreements, are represented in works councils and are in a position to put pressure on governments and regulators to conduct inquiries, introduce new legislation, and take corrective measures. They also make inroads into the company by nurturing contacts with senior managers; for example, the human resource department often acts as informal internal lobbyist for trade unions.

In academia, stakeholder theory has also been criticised for being somewhat nebulous, to such an extent that it eventually leaves corporate managers with no clear objective or the possibility to act strategically in their self-interest (Miles, 2017; Sternberg 2004; Jensen, 2002). Other scholars (Key 1999) have stated that it does not properly link different actors of the firm, nor does it link internalities and externalities. Also, Brandt and Georgiou (2018) observe that considering the interests of multiple stakeholders does not equate to being socially (let alone environmentally) responsible. On the one hand, broad social concerns and stakeholder considerations are not necessarily the same, and indeed stakeholder theory is not an underlying concept of Corporate Social Responsibility. On the other hand, when it comes to long-term social and environmental sustainability, it must be recalled that the relevant stakeholders (future generations) are often unable to make their voices heard within the boundaries of the corporation.

In a nutshell, stakeholder corporations often find themselves drowning in endless quests for consensus-building and incur substantial transaction costs. In all this, future stakeholders are conspicuously absent. Adding insult to injury, their absence helps management prevent or solve conflicts with established stakeholders by postponing the timely tackling of threats and by shifting the absorption of costs to a later moment, preferably beyond their tenure. This brings in a form of 'collective' short-termism, as opposed to the individual short-termism triggered by the Anglo-Saxon model. Many stakeholders, claiming to act in the best interest of the company, are enabled by the feeble resistance of many corporate directors. Overburdened managers who on a single day must juggle many dossiers are no match for rested, focused negotiators who know their single dossier inside out. The standard push-back by directors who are focused on the need for profitability is inadequate, as it inevitably leads to an unwinnable debate about the right level of shareholder return on investment. The need to keep access to stock markets over time is too abstract, even if it were true. The obligation on the part of the company to generate enough economic value to pay for all expenses, to invest and to cover the real cost of capital constitute a far more solid ground for discussions with stakeholders (see the paragraph on the EU Enterprise Model).

The negative consequences for innovation, productivity and growth of the company are, as in the case of the shareholder model, profound.

There is more. Thinking in terms of interests does not stop at the corporate boundary. The stakeholder model allows divisions and large business units to define and defend their own interests. Established organisations are inherently conservative, as any technical and organisational disruption implies a challenge to the often-delicate balance of power. A board is well advised to obtain the support of divisions and business unit management for significant proposals. Board proposals that seriously undermine a division's position of power are guaranteed to trigger conflict. Proposals are often amended to accommodate divisions in the mistaken belief that such concessions will smooth implementation. The original intentions of the proposal get compromised and potential value is not realised.

The position of power of various divisions is to a large degree dependent on their contribution to overall corporate profitability. This in turn often depends on a limited number of large customers that have integrated the corporate products into their offering to their customers and are therefore interested in improving quality and/or a lower price, not in innovation.

Competition among the divisions is part and parcel of corporate life. Whereas innovation requires permeable organisation boundaries many initiatives are short lived. For all these reasons, the stakeholder model deserves its reputation for slow, inconclusive decision making and the avoidance of risk.

Lack of innovation, and a brake on investment as the result of slow, basically political, decision-making causes misalignment with the long-term needs of pro-innovation, pro-sustainability corporate conduct in support of the EU priorities.

4. An alternative: towards an EU Enterprise Model

The most advanced European companies have moved beyond the standard models described in the previous sections. Companies like Novo Nordisk, Statoil and Svenska Handelsbanken position themselves differently, are supervised and managed differently and nurture a very different culture. They also easily outshine their Anglo-Saxon competitors GSK, BP, and Barclays in terms of value creation, profitability and stock market valuations. There is of course no way that financial markets will loosen their grip on listed European companies which, with very few exceptions, have embraced the shareholder model. There are also many companies that depend on venture capital, which also leaves very little wiggle room to deviate from the pursuit of return to shareholders.

There is still a large contingent of European companies that have a choice, however. Companies that consider a stock market listing should be forewarned: this includes established private companies, but also fast-growing SMEs. The tide seems to have turned, as the number of listed companies comes down, the cost of a listing goes up and public awareness of corporate cynicism increases. Banking scandals have become part of life, large pharmaceutical companies come increasingly under fire for their pricing policies and the aura surrounding technological giants is gone. In the 'trust game' there is a need for more responsible business conduct, and the legal system should provide adequate incentives to this end. As it happens, legislation, including the civic codes of all EU countries, except for Ireland, are rooted in Roman and Germanic law. Economic life is based on the obligation to act in good faith and to adhere to the principles of fairness and reasonableness. Pushed to the sidelines by Anglo- Saxon companies, and Anglo-Saxon law firms, these legal fundamentals are still in place to guide the building of alternative enterprise models.

Applying the law of the requisite variety is the only available structural response to the unprecedented uncertainty economies face. A new field of competition is introduced, this time based on the chosen corporate objectives and the way and means to pursue them.

What we define here as the EU Model is a framework companies can use to position themselves and to design their organisations depending on their societal role, the technologies they employ and the markets they serve. Applying the law of the requisite variety is the only available structural response to the unprecedented uncertainty economies face. A new field of competition is introduced, this time based on the chosen corporate objectives and the way and means to pursue them.

This flexibility is the essence of the modern company and the model is therefore fundamentally different from the models discussed in the previous sections. It is far more resilient, and has distinct advantages in pursuing the EU objectives. Here are its key features.

Companies are aware of the need for a licence to operate to be granted by society at large, in many important arenas, represented by the EU. Whereas nowadays all corporate mission statements contain lofty promises to contribute to societal needs, these are non-binding, and in practice are very difficult to operationalise. There is simply no place for them in the shareholder model as this would require a total overhaul of a control system based on financial targets for divisions, business units and staff. The stakeholder model produces more and more key performance indicators, which paralyses decision making.

Corporate objectives and their corporate contributions to society must be taken up in the corporate articles of association guiding management and the organisation alike (Kalff, 2009)[1]. The articles provide a solid base on which to hold management accountable and are the place to anchor the good faith obligation and fairness and reasonableness in dealing with employees and business partners. Similarly, the principles of good governance, such as the principle of prudence, respect for existing policies, sanctions based on convincing proof and the avoidance of conflict of interest are fundamental to what is in essence the constitution of the enterprise.

Crucially, the articles of association serve communication with the providers of capital and help the growing numbers of investors that are pouring ever-increasing sums into companies that take value creation for society seriously, but have difficulty distinguishing the chaff from the wheat. They also guide the selection of board members and management and inform human resource policies.

The sum of specific contributions by unique companies will outweigh the imposition of general standards. The enterprise is already a contract partner with a legal status, but it is also a working community and an indispensable institution to help change society.

Having anchored a broad set of objectives, companies have every incentive to make the largest contribution to EU objectives at the lowest possible cost, capitalising on their distinct competences and resources. The sum of specific contributions by unique companies will outweigh the imposition of general standards.

The EU model draws heavily on the way many family companies are positioned and managed. Family companies tend to put the interest of the company centre stage, not its finance performance or its stakeholders. As a result, they are often both more profitable and better citizens than their listed counterparts.

[1] The proposal to use the articles of association to broaden the corporate objectives was launched by Donald Kalff in *Modern Kapitalisme, alternatieve grondslagen voor grote ondernemingen* (2009) pp 83-85, Uitgeverij Business Contact (ISBN 9789047002086 2009).

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However, none of this has any meaning unless the company creates economic value on a structural basis. It is a misunderstanding that profits are essential for corporate continuity. Economic value creation, the creation of a cash surplus and a solid balance sheet, are essential, however.

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A major push to introduce EVA (Economic Value Added) reporting to replace the reporting of profits and losses has failed but the methods are still part of the toolkit of finance managers. As underlined, EVA is the only sound basis for the analysis of the financial consequences of investment and other options open to the company.

As briefly mentioned in the introduction, the difference over time between all forms of income and all kinds of expenditure should exceed the cost of capital, dividends, and interest payments. The aim is to generate free cash flow for future investment and to strengthen the balance sheet of the company. Only a strong balance sheet can guarantee that companies can capture projected cash flows now and in the distant future. A strong balance sheet is also required to take on the risks inherent in investing in the New Economy.

The focus on long-term future cashflows improves the sensitivity of managers and staff throughout the company to anticipating the impact of the EU objectives and programmes, thereby increasing the time to make necessary structural adjustments.

Furthermore, the emphasis on the creation of economic value helps to identify five different sources of economic value, each to be supported by specialised managers and staff and by tailor-made and very different forms of decision making. This is key to improving productivity, the only basis for economic growth. This outline is also an implicit contribution to the stagnating debate about the causes of the spectacular decline in productivity growth since 2008. Scholars should have paid more attention to the lack of value creation flowing from the flaws of the share- or stakeholder models.

An underestimated source of value creation is reducing value destruction. Each company is subject to market gyrations, each company must cope with internal and external disturbances to its standard procedures, each company is confronted with the operational mistakes of its supervisors, employees and partners. It is an unglamorous and demanding task to impose discipline and it requires profound knowledge of the corporate systems to find creative solutions at very short notice. It amounts to defending the integrity of the system, the results of which are recorded nowhere but contribute directly to the free flow of cash.

The second source of value creation is the so-called multifactor productivity improvement; in short, the increase in economic value that cannot be attributed to investment. Going forward, skilled planners allocate available assets, expertise, and manpower to the best of their ability. In practice companies do better by an amalgam of new ideas, minor adjustments of procedures and information flows, and new forms of cooperation. In a healthy company many informal, small experiments are conducted, many of which fail, but many succeed.

Both sources of value creation are stimulated by the management of the business unit, the kernel of the company, generally a so-called product market combination or a production unit. It is all about the realisation of the potential of the unit, its underlying business model and the best possible use of manpower and assets.

The third source of value creation is investment, in the broadest sense of the word. Investing in plant, equipment, ICT, training, and organisation for each individual business unit with a distinct, well-defined, and viable business model. All this with the aim to bring the potential to generate economic value by the business units to a structurally higher level. Business unit managers may advise but cannot be part of the decision making. They are conflicted as they are paid to believe in their business models and stand to benefit personally from investments.

It falls to the management of the corporation to conceive, develop, decide upon and implement investments. Their responsibility for implementation will significantly improve the decision-making process. Only those familiar with all the considerations and assumptions that went into the decision can make the inevitable adjustments to changing circumstances. It also falls to corporate management to realise the potential of business unit cooperation and to provide good quality services to the business units at the lowest possible cost.

The fourth way to create value is to optimise the portfolio of business models taken up by business units that at any point populate the company. Business units that destroy value and cannot be turned around need to be dismantled. New business units that can create value need to be set up.

For that latter purpose, companies fall back on a portfolio of so-called real options to create new businesses. The building, maintenance, and the enrichment of this portfolio of opportunities is the fifth way to create economic value. This is the world of R&D, product development and the identification of possible partners.

Managing the portfolio of present and future business models is an entrepreneurial function. EU Model entrepreneurship is, like in family companies, brought back to where it belongs: to board level. Here, corporate management is conflicted as they are biased to seek expansion of the company and bolster their careers.

The board is also responsible for the corporate management development programme and appoints both corporate and business unit managers.

It is already established practice that boards take responsibility for the financing of the company at the lowest possible costs. When central banks keep real interest rates at around 0%, the conclusion must be that the cost of capital is kept artificially high. Calculating the cost of capital based on past stock price volatility helps the providers of capital, basing the cost of capital on historic high rates of return is easy. Fuelling narratives that inflate the riskiness of a sector to justify a high price of capital is common practice.

There is every reason to base investment decisions on the actual cost of capital incurred to finance specific projects. This should unleash substantial investment programmes as the net present value of proposed projects goes up.

A final task of the board is to act as the custodian of the corporate articles of association and the defender of the principles enshrined in it.

Separating out the different ways to create value does justice to the major differences in decision making. The preparation, the actual decision, implementation and evaluation in each domain should be tailor made and requires different skills. An important additional advantage is that each member of the organisation is offered a line of sight to the corporate objectives while being aware of the need to create economic value. This is the basis for the proposed far-reaching delegation of responsibility and accountability, which in turn is essential for rapid adjustment to favourable and unfavourable developments. It also prevents harm being done in hierarchical organisations when senior management intervenes at, what is seen as, lower organisational levels.

This dispersed leadership and interdependence is not unlike the unique mandates of national, provincial, and local governments. This type of organisation can only be managed based on principles, not rules, targets or other forms of prescription.

Companies that are guided by good faith, reasonableness and fairness, both internally and in dealings with suppliers, customers, and partners can built the trust that is required for cooperation and, to state the obvious, cooperation is a necessary condition to creating and managing the risky ventures in support of the Green Deal and Digital Europe.

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Such an approach would also usher in a new period of labour relations. The negative impact of the 19th century opposition between capital and labour can finally be brought under control. The enterprise is not serving shareholders, its employees, and other stakeholders, it is exactly the other way around. Shareholders need the enterprise to receive a return on their investment, employees depend on the enterprise for their income and fulfilment; society at large cannot function without enterprise. It follows that the interest of the enterprise trumps any other interest, a principle found in civic codes in many countries that deserves to be part of the corporate articles of association. This opens the possibility for new forms of co-determination. Where present work councils can never provide sufficient counterweight to management in evaluating large and highly complicated investment proposals, let alone restructuring programmes, a new representative employee body, without stakeholder representation, could play a significant role in nominating and appointing members of the board and holding the board accountable as a custodian of the articles of association.

Key to the suitability of the European Enterprise Model serving the EU priorities is the confluence of on the one hand investment and productivity improvement and on the other environmental and digital benefits. Each new generation of plant and equipment is more efficient, more environmentally friendly, and more digitally advanced. As a result, the investment in the New Economy is to a significant degree financed by the productivity improvement realised by the contributing companies. The EU Enterprise Model has distinct advantages in financing a company. The focus on free cash flow will help to finance investment and reduce dependence on equity and loans. With respect to equity, the role of the articles of association, as the constitution of the company, was mentioned to help build a following of loyal shareholders. Loans are easier to obtain as banks look at cash flows and solvency to evaluate their risks. Finally, consistently rising productivity puts companies in a strong position to obtain capital at lower than market prices.

Where does the discussion on European Enterprise Models stand? Schroeter (2007) recalls the words of famous American economist Charles Kindleberger, who observed that "If European integration is to be really achieved, there must be European corporations". In his investigation, Schroeter finds evidence of distinctive traits of a European enterprise, despite the ongoing contamination by the American model, characterised by more evident organisational patterns such as the multi-divisional structure (so-called M-Form). Still today, large mergers such as Bayer/Monsanto pose challenges, namely in how to reconcile shareholder capitalism with more European ways of organising and conceiving of business conduct and structure. Gordon (1999), Owen (2016) and Cassis, Colli and Shroeter (2016) have shed light on the transformation and contamination of European capitalism by the advent of what seems to be more risk-oriented forms of capitalism from across the Atlantic.

Again, the push towards a European enterprise model may be further nurtured by Brexit, since the British corporate governance model has traditionally remained closer to the American one than the continental European model (Armour, Deakin and Konzelmann 2003). Williams and Conley (2005) spoke of a "third way" to capitalism more than a decade ago, emphasising how the European model had already made progress towards enhanced corporate social and environmental responsibility of firms.

However, the spin-off in the form of increased emphasis on corporate social responsibility is a distraction. The middle-ranking officials in charge of such programmes are conspicuously absent in the boardrooms where decisions are being taken about remuneration, dividends and share buybacks, board appointments, budgets including the investment budget, and mergers and acquisitions.

The same holds for the recent outburst of self-flagellation by American CEOs who have suddenly discovered that their companies have other interests to pursue in addition to the interests of their shareholders. These CEOs lack any concept of how to apply these new insights in practice. A considerable pushback by investors explains the lack of any progress in this setting.

Whereas both the shareholder and the stakeholder model at least show some internal consistency, hybrid models such as that enshrined in the Dutch Corporate Governance Code and approved by the Dutch Government will destroy even more value.

5. An agenda for the Commission

The Commission can do much to prepare the ground for the development of an EU Enterprise Model and can stimulate its use.

The single-most important contribution would be the integration of the EU's financial markets. This would reduce both the position of stock markets and the role of private equity. Only then can the depth and variety of providers of capital and their expanding range of objectives be matched with the variety of objectives pursued by companies.

In addition, the EU Model and other European enterprise models are not fully represented in the current EU corporate legal model, even though a vibrant debate has emerged since the late 1990s among academics and other stakeholders, such as trade unions, about the need to rebalance shareholder capitalism with more stakeholder representation and a more diffuse model of governance. For example, the Davignon Working Group in 1997 argued that "workers must be closely and permanently involved in decision-making at all levels of the company and pave the way for the creation of the European Company Statute, or *societas europaea* (SE). Yet corporate governance was firmly put on the European regulatory agenda only a couple of years later, with the Financial Services Action Plan of 1999. A decade later, during the financial crisis, the de Larosière report commissioned by the European Commission concluded that corporate governance constituted "one of the most important failures of the present crisis". But little if anything has been tried since then to effectively reform the corporate governance model in Europe, let alone tailor it to SMEs, which constitute the overwhelming majority (more than 98%) of European businesses.

Horn (2011) sees a clear pattern in which the importance of workers in European enterprises, emphasised since the Green Paper on Employee Participation and Company Structure of 1975, has gradually been replaced by an almost exclusive emphasis on market efficiency. For example, she cites the then-Commissioner for the Internal Market, Frits Bolkestein, who claimed that the objective of regulation was merely "to set up a framework which then enables the markets to play their disciplining role in an efficient way" (Bolkestein, 2003). She further argues that during the 1980s and 1990s, "rather than advocating a 'positive' harmonization approach, the Commission's approach has become increasingly based on identifying and subsequently eliminating obstacles to the free movement of companies and capital. Whereas corporate control used to be very much located in the domain of company law, subject to 'positive' harmonization, it has become increasingly regulated under aspects of capital and financial markets law". The long, tortuous *iter* of the EU Takeover Directive was a prime example of this shift, with the result that places decisions related to the company in the event of a takeover exclusively in the hands of shareholders. Later, the 2003 Company Law Action

Plan and key decisions of the Court of Justice of the EU contributed to this shift towards the 'marketisation' of European corporate governance.

After Brexit, work can start on a new SE truly based on European values, including arrangements on co-determination that had to be kept separate at the insistence of the UK. At the same time, there is now an opportunity to design an SE tailor-made for SMEs.

After Brexit, work can start on a new SE truly based on European values, including arrangements on co-determination that had to be kept separate at the insistence of the UK. At the same time, there is now an opportunity to design an SE tailor-made for SMEs. In addition to the contribution an SE makes to cross-border arrangements it provides companies flexibility in their positioning and in designing their corporate governance – the hallmark of companies that embrace the EU Enterprise Model.

The third contribution the Commission could make would be to increase diversity in management education. Virtually all busines schools teach the shareholder model doctrines. Business schools focus on meeting the demands of listed companies, private equity firms and consultants for well-trained, hardworking, competitive, graduates. Ambition and sensitivity to financial incentives help. One of the most popular criteria to rank business schools says it all: the average income of graduates after four years. The higher the ranking, the higher the tuition, the higher the study debt, the greater the need for a high-paying job, and the greater conformity with the model.

Valuable as the above steps are, the Commission can also take a great leap forward by actively promoting the EU Enterprise Model.

As stressed, the Commission is heavily dependent on the private sector to achieve its objectives. It was shown that the present enterprise models are not particularly conducive to supporting EU policies. At the same time, the Commission has never been in a better position to forge change in corporate governance and management. A considerable part of the very sizeable funds available to the Commission, the MFF and NextGenerationEU to support the Green Deal, the Digital Economy and the New Industrial Strategy, will find its way to the private sector.

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The size of the support of companies and the risks involved are such that the Commission can ill afford to ignore the flaws of the dominating enterprise models and not to pass judgement on corporate performance.

Decisions on grants and other forms of financial support by the Commission should be guided by new and high standards with respect to the positioning of enterprise in society and with respect to its governance and management, corporate structure, and culture. Financial due diligence should be complemented by governance and decision-making due diligence.

In the case of new Public Private Partnerships (PPPs) the Commission and the EIB are participating directly in the definition of the economic and social contribution the PPP should make and in the design of the governance and management of the PPP. Pushing collegial decision-making contributes to the continuity of the PPP and will help to control individual prejudices and biases. Furthermore, they can insist on the management and control of the PPP based on cash flows. Simple and transparent as it is, it would help to bridge the cultural divide between business and government, and would serve transparency and accountability. Requiring that important principles such as fairness and reasonableness are maintained in internal dealings and working with partners would underpin the corporate culture of the PPP.

Who would not like to work for such a company?

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