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Can Europe usher in a new capitalism?

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Europe is at a crossroads. For a long time it has exhibited an original form of capitalism, based on strong social (redistribution and welfare state, provision of public services, etc.) and environmental values, but today this approach appears to be fading. Can Europe reinvigorate its model and present it as a credible alternative within and beyond its borders? Corporate governance, at the interface of the expectations of many stakeholders, is at the centre of this question. It is in this context that IDDRI and the Sciences Po School of Management and Innovation organized a conference on 4th April ("The societal role of the company: is the European Union the spearhead of sustainable capitalism?"), which aimed to provide an opportunity for politicians, entrepreneurs and researchers to exchange views and examine various perspectives.

Editor's note: this blogpost was written by a student of Sciences Po's École du management et de l'innovation following April 4, 2018 conference "The societal role of the company - Is the European Union the spearhead of sustainable capitalism?".

A contentious “European model”

The European development model has had its heyday. The first industrial revolution took place in Europe. Europe is also the cradle of human rights. In the twentieth century, Europe—with the United States—was home to the largest companies in the world. Until the early 2000s, innovation in Europe was not dissimilar to that of Silicon Valley.

More recently, Europe has been a pioneer in the field of sustainable development and the search for a balance between growth and the environment. The positions advocated by Europe in the international climate negotiations or—more recently—in favour of sustainable finance, testify to this orientation, as demonstrated by certain national or local public policies (for example, in France, the government is supporting the use of green vehicles).

However, major European companies are seeing their leadership slip away. Anchored in a region where growth is lower than elsewhere, they are losing ground in the global competition: among the 50 largest companies according to market capitalisation, 7 are European, including 3 Swiss and 2 British companies; which is less than China (8) and much less than in 2006 (17)[1] . In addition, several recent scandals have eroded the trust felt by European citizens towards large companies: Parmalat a few years ago; dieselgate (Volkswagen) and Lactalis more recently; so much so that citizen commitments and CSR tend to be viewed as PR exercises rather than genuine commitments. This new mistrust of citizens towards companies (especially larger ones) is clearly identified in the report by Nicole Notat and Jean-Dominique Sénard[2] , *L'entreprise, objet d'intérêt collectif*.

This lack of confidence is reflected in European institutions. On the one hand, European citizens find that Europe is unable to define the market rules. The 2008 crisis highlighted the inability of the regulators to anticipate failures and control the behaviour of financial actors. Reluctance to take action regarding glyphosate is another example of the balance of power between the market and European institutions. On the other hand, citizens feel excluded from decisions taken at the European level. They question the relevance and added value of Europe as an institution.

At the same time, other models are having an increasing influence, such as that of the United States, where dominant management practices have developed from principles such as agency theory and shareholder value[3] . Another example is China with the implementation of state capitalism. According to Michel Aglietta,[4] , the Chinese model, which is based on an original system where the government produces and controls the structure of the economy and employment, may be the trigger for a new world order as an alternative to financial capitalism. It can be seen as a form of efficiency because, despite its weaknesses, state capitalism has enabled China to become the world’s second largest economic power, becoming the leader in many areas, including digital and internet technologies. Furthermore, some countries that have adopted this form of state capitalism have been better placed to manage the effects of the international crisis than liberal economies in developed countries.

Sustainable corporate governance: a project for Europe?

In this context, participants at the 4 April conference laid the foundations for the analysis of a new model for Europe. Given the continent’s history, this model could have several characteristics: firstly, it would aim to be sustainable and to reinforce social and environmental standards; secondly, citizens would be co-authors of the rules governing economies, markets and ecology.

Yannick Jadot (Member of the European Parliament) first recalled the initiatives of the European Commission to promote sustainable finance. He also expressed a reasoned pessimism about the ability of institutions to protect a European space—or even a model—from the power of commercial trade and certain globalized companies. To counterbalance the European Commission’s regulatory power, Cristina Tebar-Less (Head of the OECD’s Responsible Business Conduct Unit) argued in favour of voluntary agreements, which are more able to encourage the virtuous behaviour of companies and avoid the perverse effects of regulations that can lack flexibility. The OECD Guidelines for Multinational Enterprises illustrate the strengths—but also the weaknesses—of such agreements.

Daniel Hurstel (Partner at Willkie Farr & Gallagher) emphasized the contribution of law: the legal framework of corporate governance can open the door to innovative practices. The reform pathways outlined in the French PACTE draft law lead in this direction. Accounting standards will also have a role to play. Marie-Laure Djelic (Professor at Sciences Po and Co-Dean of the School of Management and Innovation) underlined that while law represents a type of hardware, the actual changes also require new software, i.e. a culture that informs about new practices. We still need to define the necessary tools—symbols, training and education—that can encourage the emergence and dissemination of this new software. These tools can be based on a European history and culture.

Indeed, Europe supports an original vision of the company, its governance and management. Research from the Collège des Bernardins[5] highlighted that co-determination is the dominant corporate governance model in Europe: many states have enshrined in law the ability of employees to participate in management decisions, alongside shareholders and managers. This can be seen as a balancing act: to remind companies about their objectives and the conditions of their efficiency as spaces of collective creation; better taking into account social and environmental externalities.

This model can be a factor for equilibrium, which moderates the excesses of shareholders that lack restraint. It can bring about social, environmental and economic results: multiplying the capacity of creation and innovation; mitigating inequalities; and linking short and long terms.

At present, this model seems to be supported by a proportion of the population (a number of researchers, entrepreneurs and citizens). It will be interesting to see whether governments and European institutions can play a role, or if they are simply bystanders of what is happening in society. This question about the role of governments is also part of what could be a European model of capitalism for the twenty-first century.

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1 The 100 largest companies in the world by market value in 2017 (in billion U.S. dollars), https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-value/

2 NOTAT N., SENARD J.-D., BARFETY J.-B. (2018), L’entreprise, objet d’intérêt collectif, rapport remis aux Ministres de la Transition écologique et solidaire, de la Justice, de l'Économie et des Finances, et du Travail, La Documentation française

3 Rappaport, Alfred (1986). Creating shareholder value: The new standard for business performance. New York: Free Press

4 AGLIETTA M. (2018), La Chine développe un capitalisme qui ouvre une voie originale vers le XXIème siècle, Le Monde, 21 avril 2018

5 Collège des Bernardins (2018), Synthèse des travaux du programme de recherche

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