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Abstract:

This paper examines the effects of financialisation on work in firms, work being considered as a meaningful and collective human activity. For that purpose, we identify the channels through which financialisation affects the practices that determine the design and control of work within firms. Such transmission channels have seldom been scrutinized in the literature which has favoured macro or meso level approaches to financialisation. We argue that the process that leads from finance to work is theoretically and normatively legitimated by the (mainstream economics') agency theory of the firm, which became the dominant paradigm in management and corporate law in the 1980s. Financialisation contributed to the dissemination of a 'governance of work by numbers', i.e., the quantification, intensification, dehumanisation and devaluation of human work. Instituting a governance model in which workers participate in decisions at all levels of the firm may be the more effective way to revert this trend.

1. INTRODUCTION

There is now a significant body of literature that analytically scrutinizes and empirically investigates the effects of financialisation on labour market and macro-level employment outcomes. Financialisation as a macro-level process influences macro-level variables and institutions such as macroeconomic policies and industrial relations systems which, in turn, powerfully impact the balance of power between employers and employees and, consequently, work. But the relationship between financialisation and work, though being documented in compelling in-depth studies (Cushen, 2013; Alvehus and Spicer, 2012; Ezzamel et al, 2008), remains under-specified. Since it is firms that determine the division, design, assessment and management of paid work, the firm is the inevitable mediator between finance and work, which implies carrying out an analysis at the firm level. Our first argument is that a specific financialisation process has been transforming firms since the 1980s, a process that has profound, far-ranging impacts on work and the workers.

By building on and developping some of Favereau (2016)'s arguments, the main aim of the present paper is to enhance the understanding of the distinctive impact financialisation exerts on work. This requires isolating the impact of financialisation from that of other macro-level trends such as globalization or evolution in information technology, which demands identifying i) the specific channels through which financialisation affects and shapes work management practices, at the firm level, and ii) the effects of such practices on work content and control, at the individual worker level.

We primarily focus on the evolution of the activity of work itself, a human activity that potentially transforms "human nature" (Marx, 1867: 127), thus diverging from and complementing existing studies that concentrate on the effects of financialisation on headcount reduction, work restructuring, job insecurity or earnings polarisation (see Cushen, 2013 for references). Our second argument is that financialisation powerfully contributes to the diffusion of "government by numbers" practices (Supiot, 2015), practices associated to the overvaluation of financial activity and the quantification, devaluation and dehumanization of human work.

Our paper is organized as follows. Section Two examines how financialisation influences firm governance and the specific channels and transmission mechanisms through which it affects work. We show that financialisation at the firm level is theoretically grounded on and normatively justified by the agency theory of the firm, which helps naturalize the hegemonic neo-liberal narrative. We also show that the major transmission channel is the need to report about the financial situation of the firm. Section Three addresses the two key features of work - namely, its meaningfulness and its collective character, features discarded in mainstream economics - that are most affected by the individualization and quantification process work is subjected to within a finance-led regime. Section Four elaborates on the indirect effects on labour relations of the dynamics previously depicted and outlines some of the institutional reforms needed to reverse current trends. Section Five concludes.

2. THE EFFECTS OF FINANCIALISATION ON FIRM GOVERNANCE AND WORK: THEORETICAL GROUNDING AND TRANSMISSION CHANNELS

The key role of agency theory of the firm in imposing the shareholder value governance model

As referred, since the design of the work to be performed by workers is determined by firms, firms are the inevitable mediators between finance and work. Actually, there is a theory of the firm that is constitutively associated to finance and that proved to be particularly performative in the last decades: this the economic, mainstream, agency theory of the firm.

The baseline of agency theory is Friedman (1970)'s seminal claims that i) "money profit" is the only legitimate goal of the corporate firm and ii) managers are "the agents of the individuals who own the corporations", namely shareholders. That shareholders own the firm has always been known to be wrong by legal scholars, in both common law and coded civil law countries (Robé, 2012)[1], but most economists discard this fact. The few mainstream economists who acknowledge that shareholders own only their shares but not the firm deem this to be irrelevant for firm governance purposes (Fama, 1980). Thus, despite this major legal flaw, Friedman's arguments were developed and turned into an economic theory of the firm, named agency theory, by Jensen & Meckling (1976)[2].

Jensen & Meckling (1976) view the firm as a nexus of contracts, which radically breaks with viewing it as a social institution, as all social scientists including institutional and transaction cost economists (Coase's followers) do. In their view, the building block of the firm is the

[1] Shareholders own only their shares, not the firm; they only suffer or benefit from their share valuation but are not accountable for the firm's economic performance. The firm, which is an economic entity, must be distinguished from the corporation, the legal entity. Roger & Favereau (2012) elaborate on the deep, far-reaching, consequences of these facts, in terms of firms' purposes and responsibilities.

[2] Jensen & Meckling (1976) is the third most cited paper in economics of those published since 1970 (Kim et al. 2006).

principal-agent contract defined “as a contract under which one person (the principal(s)) engages another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent” (Jensen and Meckling 1976, p. 308). Jensen & Meckling (1976) concentrated on the relationship between shareholders as principals and managers as agents but agency theory progressively generalized the terms to all kinds of principal-agent relationships. The firm was hence formally reduced to a cascade of principal-agent contracts and the question of its governance was reduced to investigating which incentives would best align the interests of each firm member with those of its owners.

Because shareholders were claimed to bear the greatest investment risk – the other input providers being protected by their respective contracts whilst shareholders’ revenues depend on what is felt after honouring such contracts; they are the “residual claimants” - they were to be given control over governance rights, i.e., over the board of directors (management), so as to ensure that their interests/investments are protected. The maximum valuation of the shares, as determined by financial markets supposed to be efficient (Fama, 1980), then became the final criterion of the good governance of firms. Agency theory’s nexus of contracts metaphor soon evolved into the most influential theory of the firm in economic and management academic circles, thus granting Friedman’s wishes.

As put by Davies (2016), there is something odd about a finance-based approach becoming dominant as a theory of the firm since only a tiny proportion of firms list on stock markets. The fact is that, in mainstream economic theory as well as within real-world big firms, the view of the firm, and consequently its governance, progressively changed from that of a center of production and employment to that of a center for the management of an assets portfolio[3]. Despite very unfaithfully representing real-world firms, agency theory pervaded business schools, being taught to millions of students and executives around the world. It thus became a powerful normative management model (Goshal, 2005), one that provides a powerful normative justification, from both a moral and an efficiency standpoint, for the management practices suiting the broader financialisation process (Favereau, 2016).

Agency theory translated into a real-world dominant governance model also due to it being adopted by corporate scholars, within the influential law and economics strand of literature.

[3] Lazonick (2014) calculated that 449 of the 500 Standard & Poors consecrated 54% of their net revenue to buying back their own shares and an additional 37% to distributing dividends between 2003 and 2012, which means that on average only 9% remained to increase production capacity or employment – this suggests that it is not the financial system which finances the real economy but the reverse.

Indeed, when looking for a theory of the firm on which to ground corporate law, corporate scholars adopted Jensen & Meckling (1976)'s finance-based approach, which is the dominant paradigm in corporate scholarship since the 1990s (Bodie, 2012; Armour, 2005). The primary purpose of corporate governance became that of assuring that managers/directors act in the interest of shareholders: "both boardrooms and courts have taken the normative call for shareholder value maximization increasingly at heart" (Bodie 2012, p. 1033)[4]. Accordingly, the "shareholder primacy" model, grounded on the principal/shareholders-agent/directors relationship, eschews employees (Bodie, 2012) and, indeed, the productive organization itself. The fact that agency theory "provided a quasi-scientific rationale for de-institutionalizing the corporation" (Davis, 2016, p. 509) - being theoretically grounded on voluntary contracting and private ownership – certainly explains its extensive influence.

Notwithstanding, the shareholder governance model is now being increasingly criticized for focusing on financial transactions and leaving corporate law disconnected from the strategic and operating management of the firm (Bodie 2017; Greenfield 1998). In particular, it is being denounced for hindering innovation and the long-term sustainability of many listed and non-listed firms (Cushen & Thompson, 2016; Marsden, 2016).

From the shareholder governance model to the quantification of work: transmission channels

It follows from the above depicted that the shareholder governance model is characterized by managers being pressured by financial markets (and by the design of their incentives) to create "value" for the shareholders. The post-war implicit alliance between managers and employees is replaced in the financialisation era by an explicit alliance between managers and shareholders, often to the detriment of employees since the latter's interests disappeared from firm governance objectives. Financial investors now constrain management decisions by defining the financial returns that are to be obtained. It is important to note, in this context, that it is accounting standards and not corporate law that define what is "profit" or "value creation". Maximising "shareholder value" does not simplistically means increasing share prices; it also involves the rules to be

[4] Although they recognize that firms have responsibilities to other stakeholders, the *OECD Principles of Corporate Governance*, revised in 2015, still state that this should be the primary objective of firms.

followed to calculate financial profits and to distribute the respective earnings to shareholders. These calculation and distribution rules emanate from accounting systems.

Accounting systems have evolved historically in accordance with the broad stages of capitalism and, specifically, with the needs of the dominant social forces at a given time (Richard, 2015). Unsurprisingly, the accounting model associated with financialisation emerged, like agency theory and efficient financial markets theory, from the "Chicago School" and was largely financed by big firms. The key and distinctive feature of this accounting model is to be based on the notion of "fair value" (for an asset), defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (Richard, 2015, p. 23). Its consequence is "the retention of funds and the distribution of dividends, normally tied to the concept of financial profit, based on anticipation of future sales and results" (Richard, 2015, p. 24). Because the major intention and outcome of fair value accounting is to focus on short-term gains by distributing dividends even before they are realised, Richard named this approach *futuristic accounting*. Fair value accounting was introduced in American practice in the 1990s and was dominating the world scene in the early 2000s; in 2005, the European Union made its appliance compulsory for consolidated accounts, through the adoption of IFRS/IAS (International Financial Reporting Standards / International Accounting Standards).

Accounting systems are not mere management tools, to be put in the same foot as others; they embody instead a political mode of regulation of the whole economy. Indeed, as Richard (2015) clearly demonstrates, the indicators of economic success prevailing at a given time in an economy represent political choices. In an economy dominated by financial actors, those indicators are set so as to ensure the remuneration of capital in the short-term and avoid as far as possible the risks and delays associated to long-term investments. With fair value accounting, shareholders are no longer "residual claimants" in practice but rather "ex ante claimants".

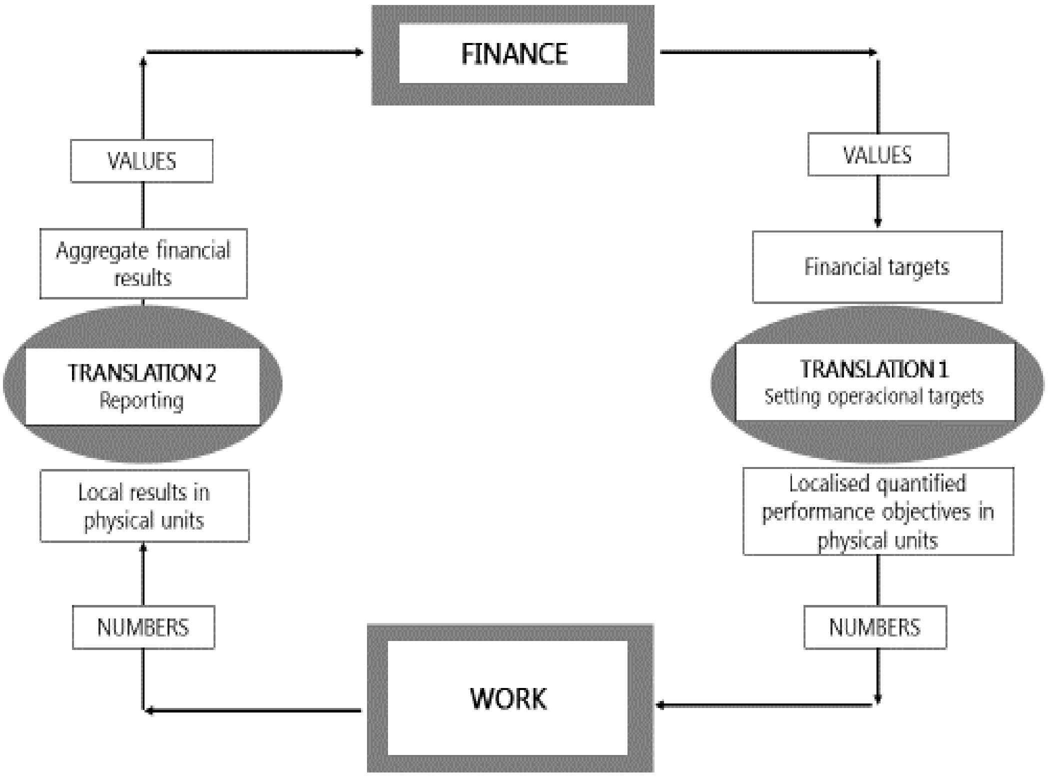
A number of case studies reveal how accounting practices are used to meet financialized metrics (Cushen, 2013; Alvehus & Spicer, 2012; Ezzamel et al, 2008)[5]. These studies highlight how these practices are put at the service of organizational control, an issue long emphasized by critical accounting scholars (Cooper & Hopper, 2007). The trend towards short term financial performance typical of financialisation and related accounting model fosters "governance by numbers" (Supiot, 2015), a type of governance that translates centrally defined profit targets into

[5] Labor cost reduction (through redundancies or work intensification) is signalled to financial markets by the use of specific accounting techniques such as OPEX (operational expenditure) or ABC (Activity Based Costing) (Cushen & Thompson, 2016).

numbers to be delivered at the point of production. Localised versions of the profit targets cascade downwards and are disseminated throughout the organization to measure progress and performance. Accounting practices are used to link financial targets to operational activities, down to the individual level, and make such link visible; a phenomenon named "performance exposure" (Cushen & Thompson, 2016). Financial targets permeate every service and office through information systems, electronic monitoring and middle management. "I joined the organization close to four years ago and when I came there were three goals: make the numbers, make the numbers, make the numbers. That's how people referred to them" (extract of interview quoted in Ezzamel et al (2008, p. 120). In the case reported in Ezzamel et al (2008), middle managers were to inform employees of their goals by "face-to-face, eyeball-to-eyeball" contact to ensure employees understood that they would be accountable in case they fail to deliver the numbers. The discipline of the financial markets is pushed down to the level of the workplace to constrain the workers' behavior whose work is translated into numbers. Finance and operational activities in the firm hence end up being closely linked, which represents a major break with the pre-finance time, when the two spheres were maintained separate.

The transmission process depicted above, from finance or, more specifically, from financial objectives and expectations given priority over any other, to the quantification of work, is represented in Figure 1 (adapted from Favereau, 2016: 47). This Figure allows highlighting that the transmission process is necessarily two-ways; the first phase involves translating financial targets into (localized and quantified) objectives – "Translation 1" – while the second involves reporting what has been done and translating it in financial values – "Translation 2". Accounting metrics underpin the whole process.

Figure 1: From finance to the quantification of work – transmission channels



It must be mentioned that the governance of work by numbers (i.e. quantification of work targets, quantified performance appraisals, pecuniary incentive schemes, etc.) did not arise from financialisation nor does it only pervades publicly listed and financialized firms. Actually, it began with the "management by objectives" trend in the 1960s (Supiot, 2015) but was powerfully reinforced by financialisation and associated accounting practices, which contributed to them disseminating through the whole productive system. Governance by numbers is particularly suited to the pursuit of shareholder value but all types of organisations, including public services (e.g. academia and health), meanwhile realized that it constitutes a powerful means of organizational control. Because of the compelling influence it exerts on workers' behavior, it helps controlling labor costs, raising productivity and enhancing economic efficiency. Financialisation strengthens the addiction to numeric evaluation that progressively invades all spheres of life in WEIRD

(Western Educated Industrialised Rich Developped)[6] societies. All types of work, from knowledge and creative work to domestic work, is presently subject to a more or less intensive commodification and quantification process which betrays human work.

3. THE DEVALUATION OF HUMAN WORK IN A FINANCE-LED REGIME

The meaningful and collective character of work

Mainstream economics portrays work as a source of disutility for workers, an activity engaged in for the sole purpose of having access to income/consumption. It is this conception of work that underpins agency theory and its core concept, that of agency costs: since workers are assumed to be rational utility-maximizers, they try to minimize the disutility generated by effort at work and are thus likely to behave opportunistically whenever possible, which compels firms to engage in agency costs (incentive schemes and monitoring). In the last decades, experimental labor economists showed that the propensity to provide effort is largely dependent on the nature of social interactions at work, and specifically on whether principal-agent relationships are perceived to be trustful and fair (Charness & Kuhn, 2011). Interactions with co-workers also prove to significantly influence productivity. New behavioral assumptions, generically named "social preferences", are thus now introduced in extended agency models in the form of arguments into utility functions. These arguments are considered "non-standard" preferences and are weighed against the standard ones in the usual utility maximization calculations, which leaves the calculative and individualistic ground of rational choice theory untouched. Furthermore, in what concerns management practices, appropriately designed pay structures are supposed to efficiently perform the multiple duties of taking workers' intrinsic motivations and social preferences into account, mitigating their opportunism and signaling principals' trustworthiness (Rebitzer & Taylor, 2011).

In truth, even though workers are now endowed with social preferences, they continue to be modelled as *abstract and calculative* agents rather than *particular people interacting* with one another, models in which reality is supplanted by its formal, mathematical, representation, and more precisely by *numbers*, the elementary particles of mathematical formalism. Standard as well as behavioral agency models of work are thus theoretically consistent with the quantification of

[6] I would replace 'Industrialised' by 'Individualistic' in this acronym.

work observed in the last decades, a process that discards work reality and replaces it by a quantified representation. Two major features of human work are left out of economic models, namely i) the meaningfulness of work and ii) its collective character, features whose value urgently needs to be duly recognised.

Rosso et al (2010) surveyed the psychological and organizational literature to find out where and how employees actually find meaning in work. Various sources of meaningfulness in work were pinpointed, namely the self, others, the work context and content, and spiritual life. The authors then built an overarching model based on the two dimensions most fundamental to the creation or maintenance of meaningful work. One dimension consists in a continuum that ranges from a desire for agency to a desire for communion, which captures the extent to which the source of meaning lies within the individual or in a collective group, while the other dimension consists in a continuum ranging from self-directed to other-directed action (Lopes, 2018). The relevance of the model is supported by empirical tests that highlight “the importance of reciprocal dynamics between individuals and groups [… whereby] the individual works to benefit the self and the collective, and the fruits of this work enhance both self and collective” (Steger et al, 2012, p. 324). Thus, what is critical for work to be meaningful is that it must simultaneously benefit society and possess an intrinsic value for the worker himself. Overall, empirical evidence suggests that work is at least as much a matter of judgement on the usefulness for others and oneself of the work performed than a calculation of whether the wage compensates for its disutility.

The second feature of work is captured by Coase (1937, p. 393): “A firm consists of the system of relationships which comes into existence when the direction of resources is dependent on an entrepreneur”. The collective dimension of work lies in this “system of relationships”, which in the case of firms involves direction. A wide list of reasons are advanced in the economic literature that argue for the superior efficiency of collective and directed work over isolated work. Directed work lessens transactions costs (Coase, 1937; Williamson, 1980, 1975); team production generates the unique productivity gains that distinguish firms from markets (Alchian & Demsetz, 1972); collective work allows building complementarities through specialization and it gets employees make (complementary) firm-specific investments (Rajan & Zingales, 1998; Williamson, 1975). Notwithstanding these cogent arguments, agency theory sticks to seeing firms as nexus of contracts established between separate individuals rather than centrally directed “systems of relationships”.

In real-world firms, working involves entering into a large set of relationships in many groups, both with peers and supervisors[7]. The employment contract is not a market transaction; rather, it is a (employment) relationship established between a person who will perform the work *in* and *as a person* and a firm, a collective entity. The exchange of work between a worker and a firm seen as a *social institution* is not a market but a "social exchange" (Fehr & Gintis, 2007), one that involves a series of interactions that generate over time informal obligations, trust and mutual commitments. A work collective is a set of persons *plus* the rules, technical and behavioral, they built together to perform their work. Empirical research shows that interpersonal interactions at work influence the meaning of work and, in particular, that membership in work groups provide individuals with meaningfulness by making them experience a sense of belonging (Kluver at al, 2014; Rosso et al, 2010).

Work is thus characterized by several kinds of *interpersonal* interactions, i.e., interactions between people who interact as *particular* individuals and *cooperate*. Indeed, no organisation would function or survive without cooperation (technical and social, (Barnard, 1938)) among its members, which makes it necessary to give a sound account of cooperation (something actively attempted by mainstream economists but unsatisfactorily achieved). Adopting Sugden's perspective (itself inspired by Adam Smith's concept of sympathy in *The Theory of Moral Sentiments*), our claim is that the interpersonal relations in which workers enter when working together generate affective states that help sustain *norms of cooperation*. Adam Smith's basic psychological assumption is that individuals have a capacity to feel imaginatively the experience of others and so to share their pleasures and pains; this leads to a "correspondence of sentiments" – or "emotional contagion"[8]. This correspondence of affective states is in turn the basis for judgements of approval or disapproval of others' and own actions. The whole process thus involves cognitive (judgmental) elements as well as affective ones and, importantly, it is fundamentally unconscious and involuntary, being thereby hardly apt to any kind of calculation.

Therefore, through recurrent interactions, as in the case of workers facing common problems in pursuit of common goals, the members of the collective of work share the sentiments of others and as a result tend to converge on common normative behaviors. (Of course, processes of affective dissonance and related judgments of disapproval may lead to severe disruptive events and breaks of cooperation.) Smith's insights are now documented by organizational scholars, who

[7] See Lopes (2020) for the analysis of the authority dimension of the employment relationship.

[8] Adam Smith's psychological assumptions had been fully confirmed by contemporary neurosciences and psychology, which use the term "empathy" rather than "sympathy" (Hein et al, 2008; Zaki et al, 2012).

came to acknowledge that cognitive processes do not give a complete picture of shared social processes; namely it is shown that emotional contagion greatly affect individual-level attitudes *as well as* group processes, leading to greater cooperativeness because of their association to social judgements and behavior (Barsade, 2002).

Smith's concept of sympathy hence provides a powerful explanation of i) why the meaningfulness of work is so closely related with its usefulness for others and its relational and collective character and ii) why collectives of work tend to cooperate.

The key features of work management in a finance-led regime: the devaluation of human work and its consequences

Governance by numbers as depicted above makes it clear that it is the outcomes of work rather than the workers as persons that are presently the primary focus of management. Being based on numbers, this kind of governance is supposed to be axiologically neutral but it actually contributes to overlook the subjective and collective experience of work – a highly axiological phenomenon. The human dimension of work and workers is neglected, empathic concern is progressively disappearing from workplaces and managers do not – have to - feel accountable for the socio-psychological well-being of their subordinates[9].

The process of work quantification is intimately linked to that of the individualization of work (Dejours, 2009); both are marked by practices like the setting of individualized and quantified performance targets, quantified appraisal systems and rankings, rising wage differentials, "unobstructive" monitoring like standardization of practices, extensive reporting procedures, etc. The human activity of work is being translated into numbers of products, clients, articles, reports, etc., in a prodigious endeavor to transcribe work into an abstraction intelligible and suitable for financial analysis (Supiot, 2015).

The fact that the prevailing management rhetoric solicits the cognitive and affective investment of workers in the pursuit of and identification with organizational goals makes this factual trend of quantification of work especially paradoxical. Indeed, good managers are well aware that the workers' loyalty and cooperative spirit are more efficiently fostered by granting them greater decision-making scope than submitting them to technical prescriptions and quantified control. A solution has been found to solve this paradox: workers are sometimes involved in the setting of the objectives they are required to achieve and for which they are made

[9] This is an oversimplification of reality. Of course, many managers and employers over the world do feel concerned with their employees (in Nordic countries, this concern is part of managers' functions).

accountable, and they are then free to decide on the means to reach these objectives. The latter are quantified but no longer look like prescriptions imposed by someone else; rather the workers feel like acting "freely", driven by their own will and self-control, which makes them give their best.

There is a problem with this solution though: it affects the workers' mental health. These management practices have resulted in a significant intensification of work, emotional exhaustion, dissolution of collective solidarities, depersonalization and deterioration of work relations, feelings of isolation and of culpability when performance targets are not met (Le Gall, 2011). In the last decades, the workers' vulnerability and psycho-social disorders have intensified considerably (Netterstrom et al, 2008; Dejours, 2009; Theorell et al., 2015).

Various explanations may be given for this increase in psycho-social disorders. First, being led to agree with their work objectives put workers in a psychologically perverse situation; they are indeed free to decide on the means and methods but their choice and opportunities for self-direction are actually limited (e.g. need for reporting). The autonomy workers are supposed to enjoy is false; it involves the means used to reach the targets but the latter are actually decided elsewhere. In truth, this autonomy aims at getting them objectively accountable and subjectively involved. But, second, the workers' subjective (cognitive and affective) involvement at work is un-respected and un-recognised. As depicted, in a governance by numbers' rationale, only outcomes matter, which perversely eclipses the fact that the latter result from workers' subjective involvement – from human work; workers are being made invisible. Third, workers face a tension between the need for meaningful work, which includes the feeling of usefully contributing to and being part of a collective, and the pressure to enter into a competitive game which often compels them to behave selfishly (if not opportunistically (Alvehus & Spicer, 2012)) to meet their quantified targets. This pressure often generates a generalized competition between workers and the deterioration of trust and solidarity, which are replaced by isolation, suspicion and anomie (which are, unsurprisingly, the ontological basis of mainstream economics).

What the quantification of work is actually fostering in many workplaces is what Brons (2017) denounces as "cultural psychopathy", namely the acceptance or even approval that the individual lack of empathy (sympathy in Smith's terms) is *normal* rather than deviant; it is the normalization of individual psychopathy[10]. "This is the headquarters of egoistic behavior"

[10] For Brons (2017) mainstream economics is a major cause of this circumstance because it never "returns from abstraction to the real world" and believes that efficiency requires unbridled competition, thus "abstracting away cooperation, mutual support and everything else that makes us human" (Brons, 2017, p.51).

declared an interviewee of an accounting firm (Alvehus & Spicer, 2012, p. 503); in turn, a middle-manager reported that 'no sympathy was shown for failure to meet the targets' even though it is recognized that "people are getting pretty thinly stretched in terms of being able to accomplish them" (Ezzamel et al, 2008, p. 128). For Brons (2017), if mainstream economics succeeds in empirically promoting *homo economicus*, whom he associates with the picture of a psychopath, then it promotes psychopathy. The substitution of governing numbers for managing workers as persons in firms may well be the most emblematic instance of such promotion. In Marx' words, the representation of labor by the quantified "value of its product", which is the mark of contemporary work, may well be transforming "human nature" (Marx, 1967).

Robust evidence shows that the performance of groups is not correlated, as expected, with the group members' average intelligence but is instead strongly correlated with their average capacity for empathy (Wolley et al, 2010). Empathy is the individual building block of solidarity. The discarding and undermining of the role of this human trait at work may hinder innovation as much as the drawbacks of the shareholder governance model referred above.

4. OUTLINING THE INSTITUTIONAL REFORMS NEEDED TO COUNTERACT THE EFFECTS OF FINANCIALISATION ON LABOR RELATIONS

A tentative explanation for the workers' weakening disposition for collective action

We concentrate here on analysing the effects of financialisation on the weakening of labor relations at the individual level.

As clearly put by Cushen & Thompson (2016, p. 360), "financialisation reinforces market discipline and market attitudes". The quantification of work process deeply affects the way work is experienced with wide influence on workers' behaviors. Several business sources and academic studies show that trust and employee engagement levels are declining while organizational cynicism and disaffection is rising (see Cushen & Thompson for references), which may seriously threaten organizational efficiency in the long-run. Other studies show that governance by numbers prompt calculative behaviors by transforming the workers' experience of their work. For example, Alvehus & Spicer (2012) report that "billable hours" practices lead workers to understand their work as a kind of investment that should be manipulated so as to reap maximal benefits, sometimes at the expense of colleagues lower in the hierarchy. Instead of experiencing the quantification of their work as an oppressive form of control, workers come to see their work life as an investment which may pay dividends in the future. This seriously deteriorates collective solidarity which in turn undermines the conditions and dispositions for collective action.

Overall, workers' resistance take on individual forms – organizational disaffection, cynicism, work withdrawal – and many workers end up contributing rather than resisting to the governance by numbers' practices. This lack of resistance and, most importantly, the workers' relative disengagement from collective action worryingly signal that the prevailing management practices are succeeding in spreading the (individualistic) values that ground financialisation which contributes to legitimize and "naturalise" them, in a vicious circle. For what is new in present times is not that firms exploit the workers' subjective engagement at work – this did not appear with financialisation – but that the quantification/individualisation practices are seen and accepted by workers and citizens as reasonable and justified. Practices that engender inequality, injustice and mental suffering are widely regarded as right and appropriate: workplaces may have become arenas where individuals learn to tolerate injustice and non-humanity (Dejours, 2009). As if economic efficiency justifies everything and does not result from political choices. The representation of the firm, its governance and the organisation of work also are highly *political* issues.

To begin with, the firm must be viewed again as a center of production and employment (and must be accordingly theorized) rather than a bundle of assets or a nexus of contracts. Workers must be managed as members of a production collective instead of being regarded as separate (human) assets whose contribution to financial performance is to be quantified. This implies recognizing that the workers' subjective involvement and cooperative dispositions ground the firms' well-functioning. The crux of the issue is acknowledging that firms are composed of a complex set of members and groups of members pursuing often divergent goals (shareholders, chief executives, departments with different functions, etc.) but that the action of each member of this complex set actually contributes to a *common goal*, the productive goal of the firm. Only insofar as workers perceive themselves as contributing to a common goal, as sharing something, might they perceive each other as a collective. This is what the quantification/individualization of work is threatening: workers come to perceive themselves as separated rather than as a collective, and this undermines collective resistance against management practices.

As referred, firms are composed of groups of members pursuing divergent goals; conflicts of different sorts inescapably arise because the aims of all groups cannot be simultaneously realized. These divergent aims and interests must be negotiated; firms are political entities and they must be explicitly, formally recognized as such (this is precisely what the nexus of contract conception of firms wants to deny). One solution to counteract the governance of work by numbers and associated weakening of collective action is having workers participate in the governance of firms. Indeed, in view of the power gained by financial actors at the macro-level, resisting financialisation at the firm level - the level where decisions about work organization are taken – through the setting of appropriate institutional reforms may be more viable.

The needed institutional reform: democratising firm governance

In the last decades, almost all economists had renounced to study the evolution of work per se, which means handing over to managerial sciences the task of deciding how work should be organized, a process that contributed to legitimatising the long-standing liberal contention that work governance is an exclusively private matter (Lopes, 2016). Yet, as stated above, the monopolization of firm governance by shareholders on the grounds that the latter are the firm's owners is a legal flaw and is largely responsible for the downgrading of the workers' power.

In the present context, notwithstanding the shortcomings of top-down solutions in the world of work, the institutional reforms needed to revert the situation must be part of an agenda openly assumed to be political, since it touches upon crucial political, economic and social issues. As put by Favereau (2016, p. 65), what is needed is a dynamic inversion, namely "corporate governance should be reconstructed around labour to allow policy to gradually regain control of the financial sphere". This would have the merit of inverting the anti-democratic bias of business firms through having workers deciding themselves about work organization and work management practices.

McMahon (1994) advances three ways - not exclusive of each other - in which corporate law could establish the conditions for more democracy in firms: 1) by having employees participate in boardrooms on an equal footing with shareholders, 2) by creating the conditions for making management accountable to employees, 3) by having employees elect the directors and/or managers. Most of these suggestions - the end of shareholder dominance, employees' representation in boardrooms, and managers' accountability to employees - are advocated since long by progressive law scholars (Bodie 2017; Greenfield 1998) and are presently discussed in some countries engaged in a revision of the corporate statute of firms (e.g, France, the UK, Italy). The idea is to consider managers as agents serving not a principal (shareholders) but rather the whole collective of work (bearing in mind that the latter is composed of very heterogeneous groups), which indeed implies a radical reshaping of corporate law.

The German codetermination (*Mitbestimmung)* system and its Scandinavian counterparts provide a real-life model that, if legally instituted at the European level – to avoid institutional competition between countries and 'law shopping' by firms –, could help implementing the "dynamic inversion" described above. It would also contribute to rebalancing the bargaining power between the financial system and the productive system since, contrary to CEOs, the workers would not ally with shareholders[11]. It must be emphasized that this model is only complete and effective when the participation of employees in board-level bodies – where they must hold at least one third of the seats – is complemented by plant-level works councils. Historical evidence shows that such effectiveness is largely dependent on the strength of trade-unions.

Codetermination does not make the conflicts of interests disappear and the extent to which it may change power relations in firms is a justly contested issue. At least, codetermination is a way of not eluding conflict in the firm governance system; it is based on a conflictual rather than consensual conception of democracy. Codetermination may presently be the only pragmatic solution able to reverse the quantification of work process; it may help recognizing and valuing the creative character of human work by influencing the firm's work and employment decisions. However, the representatives of workers in governance boards are supposed, like every other member, to pursue the interest of the firm as a whole, not only the interest of some particular group, but the principle is to ensure that the interests of all members are taken into account by having them participating in decisions. Codetermination does not eliminate managerial authority (Lopes, 2020); rather, authority directives are now also influenced by workers' representatives.

As for economic efficiency, the benefits and shortcomings of codetermination are difficult to capture. The empirical evidence collected on the German experience concludes that the effect on productivity and other economic variables is non-significant or positive but small;

[11] As the reader may have inferred, we advocate the participation of workers in management much more than in the share capital of firms.

overall, it may be safely assumed that co-determination does not impair economic efficiency (Fitzroy & Kraft 2005; Mueller 2015) nor innovation (Kraft et al, 2011).

Two final notes are worth making. Firstly, instituting codetermination as a European firm governance model allows introducing a cooperation principle that contrasts with the competition principle prevailing in EU policies and strengthens the European social model (Favereau, 2016). Secondly, to provide an appropriate and deep-rooted grounding, changes in corporate law instituting the participation of workers should be accompanied by reforms in accounting standards, like that proposed by Rambaud and Richard (2017) for example.

5. CONCLUDING REMARKS

The aim of the present paper was to enhance the understanding of the distinctive impact financialisation exerts on the human activity of work. Four main arguments were developed.

Firstly, we argued that financialisation is not solely a macro-level phenomenon; rather firms are subject to a specific financialisation process that deeply altered their governance and management practices since the 1980s. This process is theoretically grounded on and legitimated by the agency theory of the firm which progressively became a dominant theoretical and normative paradigm in economics, corporate law and management sciences. Secondly, we argued that this firm-level financialisation process heavily uses accounting metrics to translate financialized targets into operational strategies and measures, resulting in "governance by numbers" (Supiot, 2015), a powerful mode of organizational control. In the case of work, governance by numbers – which disseminated throughout all types of organisations and all countries, as can be inferred from the fact that the 2008 financial/economic crisis had very contrasted impacts on all spheres of life but work (Santos, 2016) – brought about the quantification/individualization of work, which means its intensification and dehumanization.

The fact that the control, remuneration and evaluation of workers is pervasively quantified suggests that firms are becoming blind to what distinguishes the work of humans from that of machines, since everything is reduced to numbers. Our third argument is that these quantified managerial practices are threatening to transform firms into psychopathic institutional environments (Brons, 2017). Indeed, a distinctive analytical contribution of this paper is to show that work in firms and firms' well-functioning are grounded on interpersonal interactions whose major and critical feature is to activate sympathy, a human disposition (advanced by Adam Smith and revisited by Sugden, 2005) which, through correspondence of sentiments and related moral judgements, make people contribute to a common goal. The deteriorating social climate in firms, denounced by scholars of all social sciences (Alvehus & Spicer, 2012; Le Gall, 2011; Dejours, 2009), combined with the total lack of recognition and valuation by firms of the workers' dispositions for sympathy, risks negatively impacting the latter.

In Barnard (1938, p. 110)'s terms, firms are a "system of cooperative services of persons" rather than just the "sum of services of individuals" related by incentive contracts. Yet, this is exactly how agency theory depicts firms – as nexus of contracts. The crux of the issue is that collective actions (political as well as productive ones), collective entities and, consequently, common goals are not only a blind spot of mainstream economics but what it explicitly denies. Due to its individualistic ontological framework, interpersonal interactions and the affective and normative bonds of obligations associated to the abilities of "sympathetic" humans are ultimately discarded. This crucially marks the world of work and, more broadly, the civilizational trend of WEIRD societies, on the grounds, purely ideological, that this is required by technology and economic efficiency.

Our conclusion is that the financialisation process, also at the firm level, results in ensuring the returns to capital (even before economic results are actually achieved) at the cost of largely transferring economic risks to labour. In our view, this is our fourth argument, the only pragmatic way to reverse such an imbalance of power and such a disdain for the common good, is to give more decision power to workers at the firm governance level.

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