

# A RENEWED APPROACH OF CORPORATE GOVERNANCE: THE MULTI-RESOURCES MODEL

Cécile CÉZANNE

CEPN / CNRS

Paris XIII University – Department of Economics

99, Avenue Jean-Baptiste Clément – 93430 Villetaneuse – France

Phone: (33-1) 49 40 31 64; Fax: (33-1) 49 40 33 34

Email: [cecile.cezanne@univ-paris13.fr](mailto:cecile.cezanne@univ-paris13.fr)

*JEL Classification:* D2, G30, J24, L2, M5

*Key words:* employment relationship, corporate governance, specific human capital, motivations, multi-resources model

## Abstract:

For over two decades, the firm has changed, especially with the growing importance of human capital. At the same time, the modern debate on corporate governance has paradoxically crystallized on the primacy of the shareholder value model. This paper has a dual purpose: (1) to explore the main elements, both theoretical and empirical, involving a renewal of corporate governance; (2) to propose a model of governance of human capital-intensive firms.

First, in line with contemporary theories of the firm (*critical resource theory*: Rajan & Zingales, 1998; 2000), we show that specific human assets are crucial resources for productive and transactional activities of firms. Human capital incorporated in key employees tends to become more valuable than physical capital owned by employers. Thus, power is no longer concentrated at the top of the organizational pyramid in the firm; power, instead, is dispersed among all key firm members, specialized employees with priority. Since these employees have inalienable residual rights of control on their human capital (Gibbons, 2005), we suggest that the employment relationship is a balanced economic dependency relationship. Actually, we question new property rights theory (Grossman & Hart, 1986 ; Hart & Moore, 1990) which views the employment relationship as a unilateral dependency link in favor of the employer who embodies the firm. We also explain that disciplinary approaches of corporate governance based on traditional contractual theories of the firm, as new property rights theory, have to be overtaken.

Second, we advance that an alternative vision, beyond the traditional opposition between the shareholder value and the stakeholder value approaches, has to be elaborated. We develop a collective model of corporate governance that we describe as the ‘multi-resources model’. Dedicated to human capital-intensive firms, the latter recognizes specialized employees as complementary strategic resources that enhance the collective value of the firm. The multi-resources model can be analyzed in terms of *ex post* motivations. In line with self-determination theory (Gagné & Deci, 2005), we explain that motivating key employees to work is the main regulation challenge that firms built on their specific human assets have to take up. The multi-resources model aims to incite, to retain and to enrich critical specialized workers. To serve this purpose, we show that the firm develops simultaneously individualized incentive tools and collective coordinative mechanisms; vertical compensations, horizontal work methods and decentralized decision-making are complementary instruments to maximize the multi-resources value, *i.e.* the value of the controllers of various decisive resources for the firm.

**References:**

- Gagné, M., & Deci, E. (2005). Self-Determination Theory and Work Motivation. *Journal of Organizational Behavior*, 26(4), 331-362.
- Gibbons, R. (2005). Four Formal(izable) Theories of the Firm? *Journal of Economic Behavior & Organization*, 58(2), 200-245.
- Grossman, S., & Hart, O. (1986). The Costs and Benefits of Ownership : A Theory of Vertical and Lateral Integration. *Journal of Political Economy*, 94(4), 691-719.
- Hart, O., & Moore, J. (1990). Property Rights and the Nature of the Firm. *Journal of Political Economy*, 98(6), 1119-1158.
- Rajan, R., & Zingales, L. (1998). Power in a Theory of the Firm. *Quarterly Journal of Economics*, 113(2), 387-432.
- Rajan, R., & Zingales, L. (2000). The Governance of the New Enterprise. In: X. Vives (Ed.), *Corporate Governance: Theoretical and Empirical Perspectives* (pp. 201-227). Cambridge: Cambridge University Press.