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Editorial

Critical accounts and perspectives on financialization

This special issue presents a series of papers about financialization and it follows on from a concern, expressed within CPA, about clarifying the 'problematics of financialization' (Haslam, 2010). This critical challenge might best be summarized as that of 'articulating the meaning of financialization', which we argue to be an elastic term. To try and take this forward, this special issue addresses a series of questions that arise out of this critical challenge. In what ways does financialization reflect a neo-liberal agenda with the purpose of generating shareholder value for wealth accumulation? Indeed, in what ways have financial regulatory and reporting systems yielded to and absorbed these narrow financial objectives and how have they become culturally embedded and amplified? Why might outcomes be potentially dysfunctional at the level of the firm, industry and national economy and how might levels of analysis, grounded in accounting and business models, inform us about policy framing and the way forward?

A number of papers in the first half of this special issue consider how financialization has become entrenched into the regulatory, institutional, and cultural fabric of the econo-sphere[1] and how, in turn, this manifests itself as a determination to regulate economic activity towards the purpose of extracting returns on capital and on-going recapitalizations for wealth accumulation. In the second half of this special issue the authors of a series of papers employ an analytical approach, grounded in accounting, to explore how complex relations, embedded within business models, can be employed to generate critical narratives and inform policy framing.

A series of papers in this issue: Siepel and Nightingale, Collison et al., Zhang and Andrew, Bay et al., consider how financialization is variably embedded into the institutional, regulatory and cultural fabric of the econo-sphere. The paper by Collison et al., 'Financialization and Company Law: A Study of the UK Company Law Review,' considers the way in which shareholder interests and the primacy of wealth accumulation for shareholders have become embedded in corporate law. Collison et al.'s paper reveals how financialization influences the reform of company law, in terms of defining directors' duties and so thereby also shaping the objectives that they will pursue. The authors observe that financialization is both a 'macroeconomic structural phenomenon and a socio-political process that requires a reconfiguration of social and economic institutions that support capital accumulation.'

> "While the main empirical focus is therefore the UK, our analysis is informed by research in the political economy tradition concerned with the phenomenon of 'financialization' – 'the ascendancy of finance capital over industrial capital, and ... profitability based on financial returns from credit markets and speculation.'"

Collison et al.'s paper reveals how the primacy of shareholder value is inserted into the company law review process and then formally written into the UK Companies Act 2006 (CA 2006). This paper shows how the debate surrounding the installation of a narrow agency view of shareholder value into company law comes to be contentiously characterised in terms of 'enlightened shareholder value' though with managers (as stewards) still pursuing bottom line profits, albeit now paying lip service to arbitraging a wider group of stakeholder claims and interests.

Zhang and Andrew in their paper focus on the evolution of the accounting profession's 'Conceptual Framework (CF)'. The CF governing financial disclosure has, as Zeff (1999) observes, oscillated on the one hand between reporting for a broad group of stakeholders and on the other, a narrow group of investors (shareholders and creditors). As with the Collison et al. paper, Zhang and Andrew reveal how the evolution of the CF served to legitimize a process of financialization. The most recent exposure draft pronouncements on the CF issued by the International Financial Reporting Standard (IFRS) Foundation and International Accounting Standards Board (IASB) reiterate a commitment to the disclosure of information (by management) that reflects the information needs of investors.

[1] Financial, economic, institutional and regulatory space.

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> "A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether management and the governing board of that entity have made efficient and effective use of the resources provided." (IASB, 2010:8)

The CF focuses on disclosing information that is 'decision useful' for investors and according to Zhang and Andrew 'institutionalizing this objective through the CF ensures that (capital) markets are conceptually and materially central to the practice of accounting and financial reporting. Financial markets have long been central to the reporting process, but this overt change in emphasis within the *Framework 2010* provides an insight into how neo-liberalization has been sustained in a post-global financial crisis world. The CF's tilt towards the demands of capital markets and associated institutions is, they argue, reflected also in the move towards mark to market accounting. This adjustment from historic to market values amplifies financial instability because the corporate and non-corporate sectors are continually recalibrating to reflect volatile capital market prices (Haslam et al., 2012).

The paper by Siepel and Nightingale 'Anglo-Saxon Governance: Similarities, difference and outcomes in a financialized world' engages with the evolution of corporate governance in both the US and UK. The authors argue that there is a tendency to conflate the US and UK corporate governance systems when there are, in fact, significant differences. The authors' argument echoes an earlier literature that reflects back to the post-war exchanges between UK and US executives and officials as part of the Anglo-American Productivity Council's (AACP) exploration of governance in the US and the UK. The AACP reports were concerned with highlighting governance differences between the US and the UK in industrial-corporate and financial-corporate institutions and of the impact on productivity and management of resources. Tiratsoo and Gourvish (1996) highlighted the difficulty of transferring systems into the UK when institutional and market conditions are variable and context specific. Thus, there are persistent differences, with US corporate governance often described as being 'rules based' (see Sarbanes Oxley) and in the UK, principles based or 'comply or explain'. Siepel and Nightingale draw out how these differences in governance may also influence risk taking, in terms of how and to what extent information is (or is not) shared/disclosed between managers and investors and explore differences in governance and risk taking in two mini cases: one on Royal Bank of Scotland (RBS) and the other Lehman Brothers. Importantly, despite differences in corporate governance, the shared fragility and dysfunctional nature of the financially leveraged banking business model is exposed.

In the paper by Bay et al., 'Situating Financial Literacy,' the authors argue that the financial literacy movement goes hand in hand with the financialization of society and that financial literacy is not simply an issue for non-professional investors.

> "The problem of financial literacy, however, does not reside only among the non-professional investors. Although the higher level employees in organisations are implicitly expected to possess this capability, the recent financial crises illustrate that the risks of investing in and accounting for new financial products was understood neither by the professional investors nor by the firms. As a response to the diminishing level of trust, financial literacy has also become an issue for boards of directors, with questions as to whether the accounting and auditing "scandals" would have occurred if the boards of directors had been sufficiently competent. Consequently, the issue of financial literacy is of concern both inside and outside of the organisation."

The authors identify how a financially illiterate investor community might be educated and how solutions to the 'problem' of financial literacy should be context specific and variable. The authors contrast the solution of financial education for high school children with the problem of identifying financial illiteracy in the selection of candidates for company audit committees where the presumption is that financial literacy is present. This ambiguity, the authors argue, leads to a form of complacency because, whereas the problem and solutions to financial illiteracy are identified in school children, the presumption of financial literacy of audit committee members precludes the necessity of setting out a problem definition for members of the audit committee and it also excludes actors who may make a different but relevant contribution to the audit of financial risk.

> "The findings show that the measures in the audit committee case, on the one hand, are directed towards specifying criteria so that financial literacy can be identified. This clear identification, in turn, would make it possible to exclude some actors by disqualifying them from serving as AC members. Although some of our respondents were not altogether convinced of the fruitfulness of this exclusion, the regulations suggest that the demands for financial literacy in this context might not be in the public interest."

The second group of papers in this special issue variably employs financialization to contextualize economic development at various levels of analysis: micro, meso and macro. The paper by Froud et al., 'Financialization across the Pacific: manufacturing cost ratios, supply chains and power' concerns Apple Inc.'s business model. They note at the start that 'what was good for GM was good for America'; but Apple's success largely benefits and is appreciated by its investors. In a financialized world, corporate management, Froud et al. suggest, is on quixotic quest for shareholder value where there can be a diversity of outcomes. Apple's contribution to the US economy is thus limited by its reliance on outsourcing assembly in China (Foxconn International Holdings) to extract cost reduction where labour costs are $1.5 per hour. Whilst Apple limits adverse price erosion through a process of on-going product renewal and revenue capture from its retail stores, Apple Inc.'s