

Business corporations need to create long-term value for all stakeholders, and merely maximizing shareholder value

**(Professor Yvan Allaire, at the World Economic Forum in
Davos, January 26 to 30, 2011)**

Montreal, January 25, 2011 – In a document prepared for the *World Economic Forum’s Global Council on the role of business in the 21st century*, Professor Yvan Allaire, chairman of the Institute for Governance of Public and Private Organizations (IGOPP) puts forth several proposals that would radically change the way capitalism works.

These proposals will be discussed at the World Economic in Davos between January 26th and 30th. The 16 members of this Global Council include CEOs of American, European, and Asian corporations as well as academics from several universities, including Harvard and top Chinese universities. Mrs. Monique Leroux, chair and chief executive officer of the Mouvement Desjardins, has also joined the Council last year.

“We need to take a new look at the Anglo-Saxon corporate model wherein businesses are accountable only to their shareholders,” said Dr. Allaire, co-author (with Professor Mihaela Firsirotu) of the book **Black Markets... and Business Blues** about the causes of the financial crisis and the policies to revamp the system. “Businesses must continuously strive to earn and protect their social legitimacy in the communities in which they operate.”

Professor Allaire makes specific policy recommendations to change the rules of the global economic game:

- Businesses and governments should foster, through appropriate policies, a multiplicity of business ownership forms, ranging from cooperatives and family businesses, to State-owned enterprises and publicly traded companies with or without controlling shareholders.

- To enhance the stability of the shareholder base, shareholders should have to hold their shares for at least one year, before they acquire voting rights.
- In order to reduce share churn rates, introduce a small tax on all stock transactions as well as a system of capital gains tax rates linked to the length of share holding period.
- Corporate boards of directors should formally and legally responsible for the long-term well-being of *the company*, not for *maximizing short-term shareholder value*.
- Corporate governance has to based on *legitimate and credible* board members.
- Governments should eliminate the tax benefits granted to share options awarded to managers as a form of variable compensation.
- Better still, the awarding of options as a form of compensation to senior managers should be abolished.
- Boards of directors should set a cap on the ratio of executive compensation to that of the employees.
- Large institutional investors should adopt policies that contribute to shareholder stability, promote and support resilient business ownership structures and restrict their investments in speculative vehicles such as hedge funds.
- Governments should impose the principle of international reciprocity; for example a foreign firm would be allowed to acquire a national company as long as the reverse transaction is legally possible in would-be acquirer's country.

The financial crisis has shown the faults of the form of financial capitalism that was dominant over the last twenty years. We need to learn from the painful experience of the financial crisis and adopt policies for a more equitable, stable and moral economic system.

*Established in September 2005, the **Institute for Governance of Private and Public Organizations (IGPPO)** is a joint initiative of HEC Montréal and Concordia University (The John Molson School of Business). The Institute is committed to promoting strong corporate governance practices among organizations in Quebec and the rest of Canada. Its operations focus primarily on key management activities, namely defining the corporate mission, evaluating strategic management and financial performance, recruiting and compensating officers and managing risk. It achieves this primarily through research, training, the issue of position papers and the dissemination of information. The Institute commission's academic research, organizes conferences and training seminars, takes part in public debates on governance issues, reinforces governance-related skills and promotes partnership and knowledge transfer.*

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