Corporate Governance Efficiency. Can Objectivism and/ or Antifragilism Provide a Solution?

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Abstract. In recent years the term “corporate governance” has been a hot topic in the Romanian business environment due to the fact that Romanian authorities have tried to make a change in the way state owned enterprises (SOE’s) are being run, hiring corporate experienced managers to replace the politically imposed managers. Corporate governance refers to the set of systems, principles and processes by which a company is governed (Thompson, 2009). It can offer a solution to the inefficiency of the public administration or so it is believed, because there are many variables and particularities in the Romanian economy that are not found in a multinational corporation. The need to duplicate the efficiency of the way in which corporations are being run has been translated by Romanian authorities in a national program with the main objective of bringing professionals in the decision making process. In this article we investigate the influence that two related philosophical and economic movements, as controversial as objectivism and highly regarded as antifragilism, set apart by half a century, can have on changing Romanian business environment. In the Romanian economic infrastructure, “crafted” by various groups of interest, most of them politically backed, we find burdening regulations and corruption creating a very interesting and corrosive mix. So, it would not be unusual to consider the fact that in this environment, the general opinion is that the only “entrepreneurs” who can and will succeed are the ones who have found ways in which to benefit from a privileged relationship with the all mighty State.

Keywords: corporate governance, objectivism, antifragilism, free market, globalization, Romania.

Introduction

“What if I went on strike? What if all the creative minds of the world went on strike?” (Rand, 1999 / [1957], p.9).

In 1957 Ayn Rand, author, philosopher, playwright, and screenwriter wrote her fourth book called “Atlas Shrugged”. The ideas depicted in this book created a new movement called objectivism, which has generated a lot of controversy along the decades in both economic and academic worlds. Representatives of numerous economic and social movements had common ground with the objectivism movement and its principle of the laissez-faire capitalism. For example Neo-liberalist economists such as Friedrich Hayek
and Milton Friedman, as well as anarcho-capitalists represented by the Austrian School economist and libertarian Murray Rothbard had roughly the same views of the need for limited regulations from the State institution in the free market. The authors that followed and developed objectivism where economists who believed in Rand’s vision, such as David Kelley (who had disagreements over the connections between objectivists and libertarians), Chris Sciabarra, Barbara Branden and Alan Greenspan (Chairman of the Federal Reserve of the United States from 1987 to 2006, who had the opportunity of implementing the principles of the objectivism movement in the real life American market, under the Clinton administration). Objectivism in which we find the dramatized ideal man, the producer who lives by his own effort and does not give or receive the undeserved, who honours achievement and rejects envy (McRitchie, 1999). The entrepreneurs make use of their power to correctly analyse the business environment that surrounds them so they can make sense of the consumers’ needs and then create value added goods and services to satisfy those needs.

The businessman, the entrepreneur, from the objectivist point of view, is the man who has achieved the goal of becoming the transmission belt that makes the connection between the science discoveries and the production of valuable goods and services for the benefit of the society (Rand, 1999/[1957]). Without the entrepreneurial spirit of the businessman, all the theoretical approaches and inventions would be lost and the impact on the market would not have been so powerful.

For example, the Silicon Valley community, which is the international leader in the Information Technology field (Alden, 2015), is modelled after Rand’s philosophy depicted in Atlas Shrugged. Following the ideas depicted in the quote “what if all the innovators and great minds of the world had went on strike and retreat to a remote valley where their ideas and enterprises would flourish in the absence of the regulations of the State” (Rand, 1999/[1957], p.54), this community of virtuoso entrepreneurs has become in recent years the international beacon for research and development that led to outstanding innovation in one of the most lucrative and technologically advanced field of expertise - Information Technology (Zimmer, 2013). One of the keys for this community’s success is that the “US corporations that have engaged in such restructuring have become more efficient, as reflected in enhanced profitability and higher market valuations of their assets” (Lazonick & O’Sullivan, 2000, p.28). Their corporate governance is more effective.
The technological revolution that this community has made possible, through the added value that its members, most of them multinational corporations, brought to the global market, had a very profound effect. Their efficient corporate governance strategies and their vision had the power to transform the world that we live in in a way never seen during the entire human history, connecting people from all over the world. This process of connecting people has made possible one of humanity’s early visions – a world with no borders where everyone can connect and communicate freely and at low costs with virtually anyone who is in the same network. This was the spark that ignited the creation of the “global village”, which is a concept defined by Marshall McLuhan (1989) as follows: “members of every nation being connected by communication technology”.

Taking further this concept and implementing it in the business world we see that “the use of information and communication technology (ICT), a multicultural workforce, and changing the organizational models that increase worker participation have altered the nature of multinational corporations (Shachaf, 2008). When Tim Berners Lee created the Internet he did not had a full vision of how his invention would change the world. What the Internet is doing now is creating a fertile ground for evolution through a historical increase in connectivity and thus maximizing the entrepreneurs’ ability to reach out and exchange ideas with other entrepreneurs that share the same values and principles. This incredible evolution in human connectivity is due, most of it, to the entrepreneurs who believe in Rand’ ideas and have the vision of changing the world, who have the power to overcome all the obstacles in their way.

The system and set of rules that the “producers” had developed in order to efficiently manage their companies which grew bigger and bigger every year, starting with the 50’s corporations and continuing today with the Silicon Valley IT giants, has transformed into a concept called corporate governance. Corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance (Rand Institute, 2012). For objectivism to be complete it needed a new system, which has luckily been provided by Taleb’s antifragilism.

“Not seeing a tsunami or an economic event coming is excusable... building something fragile to them is not” (Taleb, 2012). In 2012 the celebrated author Nassim Taleb, released his book “Antifragile”. It is a collection of ideas that deals with the power of randomness in creating new improved and stronger ecosystems in both nature and business environment. Taleb explains that the evolution process begins only when randomness takes
control. In his opinion the true power of randomness is that it offers the evolutionary process what it needs the most – the stressors that set apart the best adaptable from the least adaptable, the ones that evolve and survive from the ones that can't evolve and perish.

**Objectivism and Antifragilism in the Romanian Business Environment**

Evolution is the process of transformation of the information under stressors. We now underline the first connection between the two philosophies: objectivism and antifragilism are based on the notion that proper use of information and efficient handling of the transformation process of the information, leads to creating value in the case of objectivism and evolution in the case of antifragilism.

Basically, what Rand’s virtuoso entrepreneur and Taleb’s antifragilitistic system are doing is taking the society to the next evolutionary step: one through added value goods and services which eliminate inefficient competition and the other by the power of fragility which destroys all those entities who are not able to adapt. The result is that the society as a whole has only to gain from this process because the end result are superior goods and services delivered in a very efficient and highly lucrative way to a class of consumers who are more and more in demand and more and more connected via numerous online devices.

In both cases, authors challenged the way people understand and conceptualize the forces that allow success to be born and flourish. Both theories have the same core, which can be translated into Darwin's “survival of the fittest”. Heavy involvement from the State in the business environment through uneven and most of times inefficient regulations and Kafka-like bureaucracy have had a devastating effect over the efficiency and natural development of free market and even of the society as a whole. The very essence of capitalism, the investment process, has been in this manner endangered.

One of the most important and used terms in the capitalist free market is “investment” and the first rule is “protect your investment”. Gain the money. Keep the money. Multiply the money. In this regard, every economy that had to transform itself and adapt from a socialist planned economy model to a “neo-capitalist” free market has two stages of development.

The first stage is called "capital or resource accumulation", in which there is no sure way of knowing where and how the capital is being accumulated.
This was the case for the Romanian business environment after the 1990s and a quarter of a century after. Before privatization, governance of an SOE in a socialist centrally planned economy was exercised in principle by the ministry supervising the branch to which the firm belonged (Bornstein, 2000). In the process of transformation from the state owned economy to the free market, a lot of processes happen which have nothing or very little to do with the rules that govern capitalism. These processes create a lot of opportunities for resource accumulation in very high amounts with the price of undermining the national economy.

This happened because the ones who were in charge of protecting and multiplying the national economy's resources had very little regard for their job description responsibilities and tended their attention solely in creating wealth for themselves and for the interest groups that they represented (Vachudova, 2009).

In the Romanian business environments this “nouveau riche” was called “the cardboard billionaires” because of the fragility of their wealth who in almost every case vanished after a few years. What remained after these neo-capitalism adventures was a sense that Romania was “the land of opportunities” but only to those who were able to benefit from a privileged relationship with the State. This translated in a highly volatile business environment where everything could happen and in some cases really did. To fully understand the motivation behind this type of “modus operandi” one must first realize the implications of what the communist regime has done to the Romanian citizen’s sense of economic responsibility and action.

From an economic point of view, the communist regime has brought Darwin’s concept of “survival of the fittest” to new heights. In this manner the term “entrepreneurship”, under the communist regime in Romania, has had a new definition – an activity by which an employee is able to gain personal benefits by exploiting the common assets of the SOE (Karklins, 2005).

Implementing this model of resource accumulation for almost five decades, after the communist regime fell in 1990, the “communist old school entrepreneur” saw new opportunities, much more lucrative than s/he has had ever dreamed. Turning a 50 years old “tradition of making business” into an economic neo-capitalistic model has been a natural process and so the “legacies of the past” and the “imperatives of liberalization,” as alternative causal factors shaping the trajectories of regime change (Crawford & Lijphart, 1995) are the two main reasons why the Romanian economy has had this development. The legacies of the past are represented
by the “communist old school entrepreneur” which under the influence of a specific way of conducting business, mainly by exploiting the SOE’s assets have created an infrastructure where the chances of economic and social evolution where at a minimum level (Sandholtz & Taagepera, 2005).

From the point of view of objectivism this kind of "entrepreneur" represents the ultimate threat for an economy, also known as the villain, who thinks that money is meaningful no matter how it is obtained. Ignoring the need to produce, the looters try to get money through the use of altruism and coercion and they attempt to evade the fact that life demands production (Younkins, 1985).

They represent a malign force because their system does not create value, it does not create the premises for a sustainable meritocratic economic model and more than that, just like a cancer the infrastructure that they built is feeding and destroying the living organism represented by the free market. In the famous “money speech”, Rand, through one of her characters, states the essence of the ideal economic model: "Money is a tool of exchange, which can’t exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or of the looters, who take it from you by force. Money is made possible only by the men who produce... When you accept money in payment for your effort, you do so only on the conviction that you will exchange it for the product of the effort of others." (Rand, 1999/[1957], p.410).

The act of producing goods and services that have the power of creating value for the consumer, which in its turn rewards the producer by paying for those goods and services is the essence of objectivism (Moore, 2009). On the other hand, Nassim Taleb, the father of the antifragilism, states that “Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty. Yet, in spite of the ubiquity of the phenomenon, there is no word for the exact opposite of fragile. Let us call it antifragile. Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better” (Taleb, 2012, p.276).
Towards a New Theory: Objectivism 2.0

After researching both objectivism and antifragilism, one can state that Taleb’s economic model represents “objectivism 2.0”, which means the next evolutionary step in providing a reasonable explanation that digs deeper into the very essence of the real entrepreneurial success. Gerstein (2013) sees a different role for objectivism in that of creating a balance between the four pillars that hold the objectivism’s universe: Process, Ethics, Politics, and Economics instead of the classical pillars depicted by Rand: Metaphysics, Epistemology, Ethics, and Politics. What Taleb has done through his theory of antifragilism is to put Rand’s ideas of objectivism into a historical content and explain how the first “provider” was and still is nature itself and then throughout history the city-states being the personification of entrepreneurial success at a larger scale. What both economic models have in common, their shared ideas, is that only the entities that create value through innovation, adaptability and effort are rewarded by the universal system that governs this world.

In the case of objectivism, the provider is an entrepreneur that after giving everything to pursue its goal of creating goods or services of superior quality for the benefit of the masses will eventually be recognized by his/her fellows and rewarded with money and fame.

This is where Taleb’s theory comes into place, like a continuation for Rand’s ideas. Antifragilism provides us with an explanation for the insufficient rewards given to “The Provider” from Rand’s theory. What Taleb is saying is that once the virtuoso entrepreneur fulfils his role of bringing added value to the society, his mission and his purpose are over unless he is able to adapt, innovate and deliver something even better than the previous “delivery”. In nature this is being seen in all aspects of life. Create, deliver, get paid, evolve or die.

Randomness is seen as a catalyst for evolution in Taleb’s economic model because like in nature, the free market follows the universal laws and plays Darwin’s “survival of the fittest” contest. In this scenario the business environment as a whole is as strong as the fragility of the components that create it. In his book Taleb gives us an example of the restaurant business where when a restaurant fails and gets bankrupt the business system as a whole gets richer because of three things. The first is that is gets rid of a business that can’t be able to satisfy consumer needs in an efficient and profitable manner. The second gain is that other restaurants can learn from this experience and the third gain is that some other restaurant owner is given the chance to prove himself and deliver what is expected of him, or
maybe not and the story repeats itself. So, overall the system benefits either way.

In Rand’s theory the catalyst for evolution and not only that, but also the one concept that is fundamental needed to create value is the powerful grip on reality. Without it, the entrepreneur will not be able recognize needs, to deliver goods or services and bring the value to consumer and thus satisfying those needs, for which s/he is being rewarded. Randomness in this case is being defined by the variables that become obstacles for the entrepreneur in pursuing his/her vision. And just like that we encounter the very essence of the problem that has generated and defined objectivism: the over involvement of the state in the free market through regulations.

Antifragilism can explain the very essence of objectivism. And the explanation is that too much regulation and involvement from the State in the processes that should govern free market are destroying the “natural flow of randomness” that has the role of creating the fertile ground for evolution. When you short-circuit this natural flow you get zero innovation, zero added value and so on, and that can and will eventually translate into a powerful sense of frustration for the “real providers/entrepreneurs” who, in the last instance, will provide a solution of their own to this problem. So, combing the two philosophies, we find a surprising common answer to the following questions “Why is a free market indispensable for growth? Why is the State involvement not so beneficial for the business environment?”

The answer is that one of the most important concepts that lead to evolution is randomness and the State involvement limits it and almost kills it through overregulation. There is a term in the medical world which is called iatrogenesis, which means “inadvertent and preventable induction of disease or complications by the medical treatment or procedures of a physician or surgeon” (Encyclopædia Britannica, 2010, p.328). Through overmedication a doctor can induce or facilitate the spread of a disease in an otherwise healthy body. That can happen because the immune system is being affected by the medication which instead of helping the body is slowly killing it. In a similar way, the free markets and the business environment are slowly being suffocated to death by the institutions that were created to play a big role in creating and keeping a fertile ground for economic growth. By trying to control every aspect of the economic process, the State tends to overreact with planning and strategizing, in such a manner that virtually it destroys every form of randomness and with it the possibility of innovation and evolution.
Objectivism 2.0 and Corporate Governance in Post-Communist Romania

Along the way in human history something happened that changed the way in which free trade and the benefits that came with it evolved. For example, in the case of the Romanian business environment, the 50 years in which the communist regime imposed every form of business and initiative had a very profound effect on the collective entrepreneurship attitude (Roaf & Atoyan, 2014).

In order to find a reasonable and innovative solution to the existing relationship between Romanian public institutions and the business community, we must look deeper into the symbiosis that objectivism and antifragilism can create. As a result of this synergy between the two philosophies the key to unlock and break the vicious circle of a corrupt system emerges.

The first step in the build up of any strategy is to understand the processes and the environment in which the economy and the businesses that compose it are revolving (Thompson, 2012). The level of awareness of the reality that surrounds the entrepreneur and the level of fragility that it owns, can guide him to create a viable strategy in order to develop a functional business infrastructure. Every “virtuoso entrepreneur” who uses an efficient corporate governance system to steer and manage his/her company will seek the presence and partnership of fellow entrepreneurs who cherish the same values as he does. When all these entrepreneurs come together and build a network with the sole purpose of acquiring more leverage in negotiating with the State authorities, then the first step, the reality check up, is achieved. After that the network of entrepreneurs can better assess the level of fragility that this ecosystem of businesses has. On one hand, a structure that holds together a number of powerful entrepreneurs has the advantage that it can put a lot of pressure on the State, with visible results on imposing its agenda, but on the other hand the disadvantages are that such a structure is very hard to control and manage without a strong leadership “equipped” with a very strong and clear vision.

Investigating the model of wealth accumulation in the Romanian economy and its development in the last 25 years, we see a pattern. Wealth has been created not by rewarding the entrepreneurs who brought value to consumers but by developing highly lucrative ways of selling what was previously owned by the State to third parties which had no interest in making the business profitable but designing strategies to maximize the profits and minimize the investments.
The Silicon Valley model of corporate governance is one to be studied as a model of efficiency mostly because “the truly unique role of venture capitalists is found in their information-mediating and governance functions, which can be understood only in the context of relationships between the clustering of the entrepreneurial firms and a club of venture capitalists” (Aoki, 1999).

The role of clusters in the efficiency of a corporate governance model brings us to the idea that from a managerial point of view a corporation’s equivalent in human history is the city-state. Just like a city-state, a corporation is run by a board with specific responsibilities for the wellbeing of the entity that it protects. The advantage of the city-state organization model versus the national state is that it offers its citizens a lot more room for developing entrepreneurial skills and thus creating the fertile ground for innovation and evolution. The city states allowed the development of clusters both internally and externally. Inside the city states, the citizens were given the liberty to organize themselves in groups of producers, traders and so on. The liberty to self-organize gave the entrepreneurs the power to innovate and bring superior goods and services to consumers. From the external affairs point of view, the city states created themselves through commercial treaties a fertile ground where trading made possible the exchange of innovate goods and services. The State, in this case, had left to its citizens all the power needed to create for themselves the fertile ground and the infrastructure for growth and innovation.

On the other hand, in the 21-st century, when looking at the behaviour of the State institutions, we can see a pattern of overregulating for more and more processes because this is where their power lie (Financial Times, 2014). The power of bureaucracy is in direct proportionality with the number of processes and economic flows that it regulates. We certainly don’t need a commission to investigate what other commissions are doing. And after that we finance the rise of another commission to investigate the previous commission’s achievements and a pattern emerges. Overregulation is killing randomness because when everything is being controlled so roughly and efficiently how can an unplanned event happen? Antifragilism gives us the answer. No force on Earth can totally destroy the chance of randomness behaviour. Information will always find a path to slip away from the shackles of overregulation.
Conclusion

For the Romanian society to prosper and create the fertile ground for growth and innovation, we must look at the corporate governance model applied in the Sillicon Valley community of entrepreneurs. The model used by the multinational corporations, today's city states, based on objectivism and antifragilism can be a solution for an efficient use of the resources that Romania has in hands.

The “old school educated entrepreneurs” who will adapt to the new global market will eventually need to pass the bar to the new generation of entrepreneurs, who are less reluctant to create efficient infrastructure that draw inspiration from the models used by the multinational corporations. The key is to create clusters composed of visionary entrepreneurs who will eventually change the Romanian business environment using corporate governance as a vital tool in wealth gathering and development.

The State institutions will also need to adapt and satisfy the needs of the new entrepreneurs, because the pressure for change and the introduction of corporate governance strategies in the public sector will rise. The institutions responsible for the market regulations will eventually need to take attitude and deliver the results and the behaviour that is required from them. At that point the economy will fully benefit from all its resources in an efficient and lucrative manner.

Providing a highly efficient infrastructure for development and innovation can make the Romanian economy gain the competitive advantages that it so desperately needs in order to enter the global market trade system.

Looking at all the competitive advantages that the Romanian economy has in its pocket, we can see that the spark that can ignite a rebirth of the entrepreneurial spirit is reconsidering and rearrange two directions in which the State institutions act for the well being of the economic system. The first is the State’s vision on supporting the young entrepreneurs who, with access to a good internet connection can bring in online businesses a new wave of offers which can provide to Romanian and international customers goods and services that can bring the value needed in order to eventually generate high income for the Romanian Gross Domestic Product.

The second direction in which a new vision is needed is that the State needs to loosen its grip on the entrepreneurial infrastructure, through its institution. Now, the overregulation on virtually all sectors of the economy
does not have the best effect on the way businesses are being developed and encouraged to create better goods and services.

Youth entrepreneurs clusters which can benefit from the help provided by the State institutions that can give them consultancy on how to access the European Commission funds are a solution to create the environment in which Romanian very high expertise in Information Technology can generate the wealth needed.

Corporate governance should provide exactly this link between the private sector and the public institution and create the symbiosis that is vital for future national development projects.

References


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