

ACCOUNTABILITY AND RESPONSIBILITY IN CORPORATE GOVERNANCE

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ABSTRACT

A major problem of modern corporate governance is how to reconcile making corporate managers more accountable to shareholders with ensuring that managers respond to society's needs. Managerial agency costs and the existence of markets for social responsibility argue against drastically reducing managers' accountability to shareholders. But it is still not clear precisely where to draw the line between accountability and responsibility. This article's main contribution is showing how resolving this issue turns on analyzing the available options for making managers accountable to shareholders. The logistics of modern corporate governance, particularly including the inherent weakness of fiduciary duties, shareholder voting and the market for corporate control, significantly free managers from shareholder control regardless of whether society demands this freedom. Social responsibility's importance to corporate governance ultimately depends on whether high-powered partnership-type accountability mechanisms such as mandatory distributions and cash-out rights are feasible in public corporations given the double corporate tax and business arguments for locking capital in the firm.

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