Corporate Governance and the Praxeology of the Owner-Capitalist-Entrepreneur. Recollecting Thoughts from the Modern Austrian School of Economics

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Abstract

Traditional literature regarding "corporate governance" finds the "tension between ownership and management" (as it was shaped by the agency theory) to be a node in the logic of what should be the answer to the question "how the structure of the corporation property can be designated and, in this way, achieve its organizational architectural efficiency on the more developed financial markets, populated by public listed firms and owned by «diffuse» shareholders?". In such modern capital markets, that are more dynamic due to a more liberal corporatist law (although uneven across jurisdictions), a phenomenon as "unprecedented" as "ambiguously" theorized by Berle and Means (1932) has been identified: the classic problem of the "separation of ownership from control".

This article makes a brief survey on a part of the corporate governance literature that is mostly neglected and in the ignorance of which lies the melting down in the same pot of the "separation of ownership from control" reality and the "managerial omnipotence" fatality, both associated to modern multinational corporation, and otherwise messed up by Berle and Means (1932). The Austrian School literature in the theory of the firm has the potential to mitigate bad explanations and poor policy prescriptions that undeservedly hamper the very capacity of corporate structures to adapt themselves to changes, the need turning more stringent in times of worldwide spread crises.

Keywords: *praxeology, Austrian School, corporate governance, entrepreneurship, agency.*

JEL classification: B53, L22, L51, M16.

Introduction. From "mainstream" and beyond

Corporate governance, in a restricted sense, can be considered that (re)presents (also) the amount of issues related to how owners (many and dispersed) and lenders (although positionally left aside) of large companies interact with their managers / administrators / operators. Themes such as "corporate transparency", "managerial responsibility", "failure of corporate governance", "weak board of directors", "hostile takeovers", "minority shareholders protection" or "investor activism" make up a complex jargon that, not a few times, sowed

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diagnostic and resolute inaccuracy (Tirole 2006, 15). For example, problems have been charged to the specificity of some systems like the one with atomized shareholding and almighty managers companies (specifically Anglo-Saxon), or with asymmetrical shareholding (insiders with control vs. minor shareholder, specific to the continental area), without explaining the specificity source. Laws (such as 2002 Sarbanes-Oxley Act, in the US) and conduct codes (CalPERS in the US, Cadbury and Greenbury in the UK, Viénot in France) have tried to find ways to improve the performance of corporate administration, after the corporative world was shaken in the last two decades by resonant scandals of mismanagement (Dynegy, Qwest, Enron, WorldCom, Global Crossing, Tyco, ... Lehman Brothers, in the US; Seat, Banesto, Metallgesellschaft, Suez, ABB, Swisair, Vivendi, in EU).

Canonically defined, "corporate governance" represents the amount of ways in which the corporate providers of financial resources – shareholders, lenders – ensure that they get a good return for their investment (Shleifer and Vishny 1997). Or, conversely, the ways in which the administrators (managers and directors) that operate the corporation can provide, in a credible manner, sustainable yields, expected by the investors, and successfully attract necessary resources to aggregately increase the wealth engaged by the co-investors. In the meantime, there had also been (self-)invited other interests (employees, local communities, providers, clients) within the range of the above definition for the "corporate governance".

In terms of the firms' teleological and proprietary perspective, the latter interests (of those individuals not directly involved in running a corporation – that is shareholders, directors, managers) remain at most "aesthetic" ones, but having the potential to become "ethical", when shareholders and managers take corporative decisions that violently affect the interest of those third parties or, conversely, when upon whom are being taken measures inspired by the stakeholders, that are further internalized in law, whether or not they are undisputedly sound. In this article, we focus on the shareholders-managers relationship that defines the backbone of firm-entity and the development of corporate governance themes.

Nota bene: for methodological reasons of simplicity (in the logic of this paper), we will consider homogenously, under the name of "management", both the "top" board of directors members ruling basically every corporation and their subordinate "lower-level" managers. We consider the administrative hierarchy as a secondary point regarding the fundamental relation of the authority delegation between corporate owners (shareholders) and their administrators (be them managers or directors). Moreover, often the board of directors fails to prevent or minimize moral hazard problems to which "operative managers" could fall prey, because, unless it would be composed only with shareholders, the endemic tensions of the principal-agent relation would remain the same. We make a halt to a brief series of theoretical discussions proposed by the mainstream schools and answered to by the Austrian "dissidents" in unequal degrees of depth (or to be responded in the future) in the area of corporate governance, which is just the conceptual framework in which we found very relevant the need for discrimination between the unproblematic "separation of ownership and control" (in the sense of the division of labour between entrepreneurs and managers), and the problem of the "omnipotent and discretionary management". And this approach cannot leave aside the need for a good use of some concepts like "entrepreneur", "property", "capital" or "profit".

1. A view on the Austrian School epistemology and methodology

Without insisting on the perfect investigating method in social (and, also, in economic) sciences, nevertheless important for defending the positions of various schools of thought which dispute their epistemic supremacy, we will set, from the beginning, the approach of this article in the Austrian praxeological framework, as it established in economic thought tradition with the revolutionary contributions of Mises ([1945] 1990b; [1949] 1998; [1957] 1985b; 1960; 1962 etc.). Although referred to as "tautological unspectacular", the praxeological method has the capacity to shed sufficient light including in the area of the "theory of the firm" (and, as a result, in the "corporative governance" subset). As a "memento", here are the ingredients and reasons of Austrian School's epistemological and methodological acquis in economic sciences:

- Mises had argued that the theory of value, as developed by Carl Menger and his followers, is the key element of a general theory of human behaviour – praxeology – that transcends traditional boundaries of economic science. The theory of value applies to human action regardless of place, time and persons, while economic theory applies only to a certain category of human actions, namely to those "human actions guided by economic calculation in monetary terms" (see Mises [1920] 1975).
- Mises said that praxeology / economics has a logical and epistemologically unique nature. Praxeology is the process of deducting correct principles from one or more axiomatic statements. It is based on verbal logics, rather than on mathematic one, recognizes the subjective nature of individual preferences and values, sees introspection as a useful guide for the eternal and universal truths about human action consequences and rejects altogether the positivists' claims for keen empirical testing.

The following discussion, on the theory of the firm and its subset – the corporate governance themes –, will be made in this praxeological, non-empirical tradition of reasoning.

2. The theory of the firm – the corporate governance mainframe

In order to explain the firm, the essentialized amphitheatre of corporate governance themes, we suggest a terminological clarification anchored, as the whole spirit of the paper, in the epistemological and semantic "parish" of Austrian School. We will not elaborate too much on searching for a general theory of the firm – coextensive to an economic theory of modern business corporations. Instead, we will only show that a theory of the firm is perfectly reducible to a "realistic theory of the entrepreneur". And it rejects also the "neoclassical" view, being even more relevant than the one based on "transaction cost economics", a mainframe of the theory of organizations.

✓ Neoclassical economists operated with a so-called "black-box firm", impenetrable internally (view called, more or less just, as of Marshallian origin), for so long dominant: the advanced view was embedded in the logic of equilibrium, mechanistically managed, automatic-optimizing, and equaled the firm / company to a certain production function, where managers, as price-takers, try, assisted by financial calculation, to extract maximum output from a bundle of inputs. Without uncertainties and anticipating needs, without action that takes place in time, without learning, communication and information needs etc., this type of company is purified from all that would have ensured a minimal resemblance to the real phenomenon of business unit, the ultimate neoclassical sin being the absurd suppressing of the entrepreneurial element, the very "creator" of firms.

✓ Furthermore, the entrepreneur-centered perspective is closer to reality even than the once revolutionary perspective based on transaction costs, as developed on the Coase-Williamson line, which tries to explain the option for one organization form or another of production processes (being given certain characteristics of the actors involved in the decision – like limited rationality and opportunism – and, respectively, of the transactions – uncertainty, operations frequency or assets' specificity) by saving transactions costs; the options comes at the "external-market-vs.-internal-management" governance margin. This view has as flaws the conceptual liability of the idea of "transaction cost", an (unnecessary) alteration of the classic "opportunity cost" and the obliteration of exactly the person naturally endowed to make cost computations – the entrepreneur.

So, what literature has established as a conventional theory of the firm often has more aspects of non-systematic intuitionism than of (generally valid) theory or, at least, aspects of proxy adaptable to sustainably explaining what is, otherwise, acknowledged as meaning (without explaining what keeps them together) "structured teleological conglomerates of production factors" (Topan 2009, 96), known as "firms".

However, it was understood, although loosely, that some features of "human position in the world" (such as uncertainty or risk, temporal dimension, information) or of "interpersonal production relationships" (such as team / associative production, transactions or their costs, opportunism or tendency towards responsibility eviction, towards truancy, agency relation problems) have consequences in terms of firm's creation / dissolution, organizing or sizing. But we concede that none of the mainstream analytical pieces managed to be without explanatory gaps or conceptual sophisms. Not the same can be said about the more modest (in the spirit expressed by the principle of “Occam’s razor”), but nevertheless more realistic theory of the entrepreneur, as it was built (but here also unevenly between the explanatory strands) by economists in the Austrian School tradition.

The firm’s theory praxeological and focus-on-entrepreneur orientation – where the entrepreneur is the hypostasis of the company’s complex teleological unit, employing resources / property, waiting for their fulfilment and undertaking the risk of loss, in terms of value, in an possible unsuccessfully productive combination – has marked the “old” literature of the Austrian School, with Kirzner (1973), Rothbard (2004), later “renewed” with the writings of Foss (1994), Klein (1996, 1999, 2008), Fu-Lai Yu (1999) or Salerno (2008), but also with interesting contributions in the Romanian “Austrians” community, where the concern proved to be patent in recent years – see Marinescu (2004), Spiridon (2005), Costea (2006), Muşetescu (2009), Topan (2009) or Jora (2011).

The firm’s problem can be defined along two (interconnected) lines: identifying the “architects”-entrepreneurs behind the company and identifying the productive aggregate which, in their eyes – as owners, in one form or another –, is the relevant sculpture of the company’s resources (Topan 2009, 133). This “sculpture” can get shape and can make sense in a complex economy only by calculating in monetary terms the capital value of the business unit belonging to (both calculation and unity) someone. “The significant link between entrepreneurs and the company’s resources aggregate [is] the calculation in monetary terms; being largely entrepreneurial speculative, non-scientific, it is not objective and is always someone’s calculation – of those who own the resources (i.e. entrepreneurs)”, summarizes Topan (2009, 133). Based on these assumptions, there can be remarked within a corporation the capitalists-entrepreneurs (distinguished from ordinary capitalists / creditors) and the managers – both said to “dispute” its ultimate control.

The fact is that a firm / company / corporation is, essentially, the project of at least a capitalist in his quality of entrepreneur (too), project where material resources owned by him, and also entrusted by other “simple” capitalists / creditors (“simple” relative to the relevant project) are configured and calculated combined with services-labour of third parties and used, in conditions of uncertainty, to achieve goals, whose common denominator is “profit”. (The entrepreneur is the one to bear the ultimate risk (of failure), but this is not his obsession; he does not engage in sterile-probabilistic risk assessment in a lottery, but evaluates in terms of market prices, aiming for the customers’ satisfaction.) The firm / company / corporation, as the concrete manifestation of entrepreneurs, requires, therefore, economic calculation, which in turn has several institutional premises, the most important being: the existence of private property (Jora and Iacob, 2011), in general, and mainly in the means of production (including in the form of an unrestricted capital market); freedom of (domestic and international) trade; and sound currency. In this basic framework, entrepreneurs / capitalist / owners, assisted by their entrusted (even not always trustful) managers are free to create companies, to expand them, to reconfigure them, merge or break them into pieces, to dissolve them etc., all being economically subject to calculation.

3. Some paths in an "Austrian theory of corporate governance"

In what follows, we make a review of an Austrian School approach to corporate governance, although this is not an explicit endeavour in this tradition. We will readjust the discussion with Klein (1999, 31-8) on four "levels": the principal-agent problem is ubiquitous in human cooperation, but is exacerbated by bad public institutional framework; the firm / corporation is an investment of resources sensitive to property rights protection; the firm / corporation is encompassed by an internal capital markets subject to competition; financiers act as entrepreneurs and their action in the firm's framework has disciplinary effects unless hampered by discretionary political institutional barriers.

a. The omnipotence of a "bureaucratized management"

In corporative governance literature perhaps there is no other question more popular than "why do we have strong managers and weak owners?", whose epicentre is ubiquitous (nowadays, the "Berle-Means corporation", characterized by "scattered and ineffective" shareholders) and no answer as faible as the one given by Berle and Means themselves[2]. As in many other inquiries, Mises's analysis is enlightening. In *Human Action*, Mises raises the issue of a "developing omnipresent managerial class (which) is not an unspoiled market economy effect", but the result of governmental policy (Mises 1949, 307). Here, he develops his previous analysis of *Bureaucracy* ([1944] 2007), which attacks the claim that bureaucracy sterns naturally simply from the size of the company. Mises perceives bureaucracy as a result of behaviour rules, opposed to the pursuit of profit in genuine markets. He uses the term "bureaucratic management" for the governing of those activities on the market that have no monetary value. Otherwise, as long as the firm's inputs and outputs are bought and sold, the company's central management will receive information provided by market prices for a prospective and retrospective evaluation of the effectiveness of different branches and divisions from the whole company that are confided to the managers. But, for example, if a

[2] "The last few years have seen the growth of a new literature on «comparative corporate governance», the study of alternative means of governing relations between firm owners and managers. The typical comparison is between stock-market systems like those in the US and UK, and bank-centered systems like those in Germany and Japan. According to Roe, the phenomenon he calls «strong managers, weak owners» is an outgrowth not of the market process, but of legal restrictions on firm ownership and control. In the US, for example, banks and other institutions are forbidden from owning firms; antitrust laws prohibit industrial combinations like the Japanese keiretsu; and anti-takeover restrictions dilute the effects of the takeover mechanism. Laws that require diffuse ownership create what Roe terms the «Berle–Means corporation», in which «fragmented ownership shifts power in the firm to managers»" (Klein 1999, 35-6).

company produces goods or services that don't have a market price – the very case of "production" of a government agency –, then it's imperative to give very specific instructions to subordinate managers about "what to do, how to act".

The fact that the managers of a private firm have the freedom to make decisions daily, says Mises, does not mean that the company is "bureaucratic" in relation to the owners' interests. The trend towards rigid bureaucracy is not part of the natural business development, is not a "market failure", but the result of government intervention in business, policies designed to leave the profit motive aside from its purpose within the economic organization of the society (Mises [1944] 2007). What Mises says is that government involvement hampers the entrepreneur in his use of economic calculation and in his attempt to use market prices to impose managerial discipline evaluating the performances of his delegated administrators. Mises gives three examples of statist distortions of governance mechanisms: taxes / fees and price regulations that alter the company's profits (and distort the most important signal of managerial performance, the profits); laws that alter hiring and promoting employees (including the need to employ public relation and legal staff and accounting to comply with government requirements for tax / reporting); the omnipresent threat of arbitrary antitrust law or regulatory activity in response to which entrepreneurs must become advocates to "diplomacy and bribery" to pursue policies of "captatio benevolensis" toward authorities. Thus, the effect of positive legal, as opposed to naturally legitimate in the private property logic (Hoppe 1989), restrictions on corporate governance and organizational form has been already a fertile research field in the Austrian tradition.

b. Ownership incentives shape the "firm-as-investment"

Klein (1999, 31) notes that because the owner, not the manager, has "the last word (to allocate resources)" in the firm, an Austrian theory of the firm should include two elements: a theory of investment (corporate finance) and a theory of how investors provide incentives for managers to use resources efficiently (corporate governance). In mainstream microeconomics textbooks, however, what equity investors give the company is treated just like another input. Its price, "the rental price of capital" or interest, is simply another cost for the manufacturer. Any surplus of income over expenditure, including capital cost, goes to the manager (sometimes confusingly called "entrepreneur"). This residue is called profit, though it is not (in the Misesian-Rothbardian sense in which it represents the social reward for successfully risk taking entrepreneurs-capitalists-owners).

From the owner's perspective, the company is seen as his own investment. "The purpose of the company" is to maximize the profitability of the invested capital. This capital money may be considered as a production factor, but it's a single factor, the "prevalent" factor ("controlling" factor) that receives the net income of the whole operation. Other factors such as labour (including management) and "physical capital" are considered "contracting" factors, thus receiving fixed payments. The services of a manager are costs, while the investor is the claimant of the residual income. And because the capitalist bears the investment risk of failure, he has initiative. If the mere-entrepreneur, "Kirznerian discoverer" is hired by the capitalist as a manager, his compensation is not profit, but some cost for the owner of the company (Rothbard 2004, 283).

These facts have significant implications in the "business behaviour". Although managers have a different maximizing utility agenda than the capitalist-entrepreneurs- preferring a certain type of production through a certain volume of the company's assets acquired (also) through acquisitions and mergers, the shareholders have "residual tools" to check the managerial performance: decentralized profitability[3]. The role of private property is considered as an implicit motivational mechanism used to minimize the agency's problems, within the theory of the firm: Mises ([1920] 1975; 1944; 1949) developed this understanding of the crucial role of private property with the occasion of socialist calculation debate. The debate might be extended to show that private property in capital help the rationalization of resources, in any kind of social organization.

In his analysis on motivational issues within the company, Mises finds of crucial importance, besides property rights as residual income streams, also the residual control rights; these can't be separated. Mises does not identify the concept of residual control rights as it appears in the "modern theory of property rights" (Grossman, Hart etc.), but the idea is constantly present in his discussion of the role of managers and shareholders. Mises (1949, 303) recognized that managers have a considerable autonomy over the regular operations of the company, yet the company is never controlled by the managers. Those who, ultimately, exercise control are the shareholders, choosing, if allowed to do so, to whom they entrust their capital; shareholders, as owners, have / keep the right to withdraw the power to administrate the capital pool from managers.

c. *Firms act between inside and outside capital markets*

Klein (1999, 33) recounts how, in the extension of the Coaseian analytical framework, Williamson (1975; 1981) describes the modern multi-division company (or the "M" corporation) as a means of intra-firm capital allocation. Capital markets allocate resources between independent companies, with a single type of product, but in diversified companies, like multi-divisionary companies, the resources are internally allocated, the entrepreneur provides funds among the profit centre divisions based on relative profitability. Corresponding to Coase, who

[3] "First of all, [...] if the company has positive net gains from the current production, instead of increasing production until its marginal net gain is zero, it could simply take those gains and engage them in something else, like establishing a new company in the same industry or to diversify into a new industry [...]. The efficient scale of production is determined by external investment opportunities, not only by managerial gains of a single type of output.
[...] Secondly, the concept of investment firm that correlates closely with a growing literature on mergers as a form of investment at the firm level [...]. Once they obtain the financial resources from capitalist, the managers are reserved on how to invest these resources. To "supplement" the company's normal investments – capital expenditure, research and development –, the managers can choose to purchase assets from other existing firms via mergers" (Klein 1999, 32-3).

argued that companies “replace” the markets on the margin of transaction-production, Williamson added that multi-division companies “replace” capital markets when the external financing costs exceed those of internal allocation. According to internal capital markets theory, diversified firms appear when the operating limits related to international capital markets allow internal management[4] to allocate and manage funds more efficiently than within the external market[5].

If entrepreneurs have a special ability to manage information and to allocate financial resources in the company – namely if diversified companies would “replace” external capital markets –, then why are capital markets necessary? Paraphrasing Coase (1937, 42-3), Klein asks: “Why not organize the entire economy as a giant conglomerate?”. The answer is that the argument for the advantages of internal capital markets is not infinitely upward, it applies only to the companies that remain engaged in the markets (remainder of the “Coaseian” discussion Rothbard made on economic calculation in monetary prices that competitive markets make, and also on the optimal size of a company, we state that the size of the conglomerate would take into consideration the cost of calculation plus internal transaction costs – including agency costs –, which the entrepreneur-capitalist compares with trading); the analysis in entrepreneurial project terms is still more general than “sanding the edges” of so many transaction costs (Hülsmann 2004).

The argument of the firm’s internal capital market’s efficiency, compared with outside investors, is that the inside entrepreneur can extract additional information about needs and divisional performance. However, the entrepreneur’s knowledge does not replace the knowledge in terms of market prices. To evaluate the benefits of a proposed investment, the “central management” of a diversified conglomerate still calculates his benefits and expected (monetary) costs, based on market prices. Internal accounting does not replace monetary prices; just uses the information on prices in a certain way. When capital goods prices are distorted – for example, because of financial market regulations –, then it is said that the

[4] Please note that using here the term management we do not argue the analysis we made so far. By manager we understand the shareholders decision image which checks anyway (indirectly and implicitly) the profitability of the allocations. There may be many reasons for internal reallocations.

[5] “First, the central headquarters of the firm (HQ) typically has access to information unavailable to external parties, which it extracts through its own internal auditing and reporting procedures [...]. Second, managers inside the firm may also be more willing to reveal information to HQ than to outsiders, since revealing the same information to the capital market would also reveal it to rival firms, potentially hurting the firm’s competitive position. Third, HQ can also intervene selectively, making marginal changes to divisional operating procedures, whereas the external market can discipline a division only by raising or lowering the share price of the entire firm. Fourth, HQ has residual rights of control that providers of outside finance do not have, making it easier to redeploy the assets of poorly performing divisions [...]. More generally, these control rights allow HQ to add value by engaging in «winner picking» among competing projects when credit to the firm as a whole is constrained [...]. Fifth, the internal capital market may react more «rationally» to new information: those who dispense the funds need only take into account their own expectations about the returns to a particular investment, and not their expectations about other investors’ expectations. Hence there would be no speculative bubbles or waves” (Klein 1999, 34).

additional knowledge of the entrepreneur is more valuable. So, under these conditions, we would expect an increasing number of "M" corporations, allocating resources through inside capital markets. In 1960s US, due to a strong wave of regulations, this was noted empirically; and this trend reversed in the 1970-1980s.

d. The outside takeover market fosters inside discipline

The "market for corporate control" sets strict limits to manager's capacity to pursue their own goals at the expenses of the capitalist entrepreneur's objectives – for example, through the mechanism of mergers and acquisitions. However, there is a whole debate on the "takeovers" mechanism's disciplinary effectiveness. If the managers want acquisitions just to increase their own prestige or control – to engage in "the construction of a corporate empire" (empire building) –, an unregulated market would generate "too many takeovers", and many of them prove unsuccessful. Indeed, some studies have found a significant difference between the pre-merger expectations of market participants on post-merger performance of merging firms and the actual performance of companies. However, the fact that some mergers – indeed, many mergers, takeovers and reorganizations – prove to be unprofitable does not imply market failure or not necessarily require a policy response. In a world of uncertainty, errors will always be made. Even the financial markets, which account for the collective wisdom of capitalist entrepreneurs, will sometimes make wrong judgments in a particular transaction. Sometimes, the market rewards, ex ante, a proposed restructuration that has no efficiency justification. But this is not due to capital market failure, but to imperfect knowledge. Final considerations about the success or failure can be made only ex post, when the market process is over. Also, there is no reason to believe that courts or regulating authorities can make judgments / assessments better than financial markets. In fact, decisions made by courts or governmental agencies will tend to be worse: unlike market participants, judges and bureaucrats pursue a variety of private purposes, unrelated to economic efficiency. Moreover, the market quickly penalizes an error as it is discovered; hearings, research committees, commissions are, therefore, unnecessary. In short, the fact that companies often fail comes as a surprise only to those loyal to the competition models found in textbooks, where the very idea of "failure" itself is poorly defined.

Another critique against the corporate control market is that the unregulated financial markets engage, on the contrary, in "too few takeovers", because of free rider problem associated with tender offers (see, for example, Scharfstein (1988)). Critics point out that if the difference between the company's current price (undervalued) and its market value after the takeover would be public information, the target company's shareholders would refuse to sell their shares until the current price has not increased through auctions, taking over a share of the gains made by the purchasing company. These critics say that regulation, not takeover markets, should be used to discipline managers. The weakness of this argument is that it assumes investors have the perfect knowledge. Usually, the average shareholder doesn't have the same information as the managers, external "hostile takers" and other specialists. It is not in the best interest of the minority shareholder to know these details; that's why he delegates, first of all, these responsibilities to the managers. As Hayek describes (1945), there is an extensive division of knowledge inside society. The "hostile taker" that perceives a difference between the current market value of the company and its potential value within the new management range of control has the very opportunity to an entrepreneurial profit (not taking into account the takeover's transactions costs). Because the managers do not retain this kind of responsibilities, usually they will not gain a part of this profit. However, as Rothbard notices (1962, 372), as a result of the shareholders (owners) choice to delegate operational responsibilities to managers – outsourcing management functions –, they retain the residual control rights. In addition, the post-acquisition market value of the company is uncertain, "hostile taker's" profit, if it succeeds, is the reward for bearing this uncertainty. In this respect, he is a Misesian capitalist entrepreneur. This finding, however, should be further developed. For example, how is the risk distributed among the participants bearing different forms of restructuration? How regulatory barriers distort the capitalist's entrepreneur ability to exercise the entrepreneurial function in this context?

Conclusions

The way the representatives of the Austrian School of economics understood the nature of property rights properly notified the importance of these rights for the motivation problem within a socialist organization or any type of organization in general, so the analysis undertaken by them supersedes both the "new" and the "old" approaches on property rights. In addition to the criticism on the "economic socialist calculation", following Mises, the "Austrians" discovered the source of the "bureaucratization of organizations". But Mises distinguished himself arguing that the problems of economic calculation and incentives are not separate problems within a company: both are based on the existence or absence of private ownership of means of production, and this insight is a key one in grasping the behaviour of corporations that sometimes are driven on false roots by discretionary managers.

The artificial omnipotence of corporate management – made possible by antitrust law (restricting financial institutions to hold shares and / or to act as shareholders), acquisitions and mergers law, „insider trading" law, status corporate law, contract law, employment law, all of them immunizing the managers' positions in corporations – and the privatization of profits and externalization of their loses might explain, partly, the hazardous way of conducting businesses, whose result is the "modern boom-bust economy". The fluctuating nature of capitalistic economy is (also) an offshoot not of a natural degeneration of the market-type ownership-management relationship, but, among others, of the privileges that non-owners receive by governmental policies, making moral-hazard the "modus-operandi" in economies.

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