CORPORATE GOVERNANCE, AND WEALTH AND INCOME INEQUALITY

Research Question/Issue:
There has been growing concern about rising social inequality, and its effects on general well-being and the polity. Much of this rise can be traced to changes in the manner in which corporations or firms are governed, and how this impacts on income and wealth dispersion. This study systematically reviews the most recent literature on external and internal corporate governance (CG) that deals with the issue of income and wealth inequality.

Research Findings/Insights:
External mechanisms such as institutional regime (defined in terms of Varieties of Capitalism – Liberal or Coordinated Markets), and financialisation reveal important insights, often implicitly, into what makes or sustains inequality. The rise of the platform business model raises explicit concerns about increasing wealth and wage inequality. This is because it is associated with a rapidly growing precariat of gig workers, Big Tech entrepreneurs with untrammelled levels of control and extreme levels of personal wealth, and widespread tax avoidance despite record profits. The literature on internal CG is somewhat constrained in its reliance on agency theory and a focus on shareholder primacy. This only provides limited insights on how internal CG mechanisms impact on inequality. However, in recent work, the issue of perverse incentives posed by CEO reward systems, and their impact on organizational sustainability and wage dispersion is receiving increasing attention.

Theoretical/Academic Implications:
Some studies do attempt to widen the lens, and we suggest a greater focus on theorizing co-determination and alternate forms of ownership, non-monetary incentives, the power of the Big Tech companies, as well as those strands of comparative institutional analyses that explore the determinants of internal CG structures.

Practitioner and Policy Implications.
The study re-asserts the importance of the firm as a central analytical paradigm in understanding income and wealth inequality, and that, in seeking to ameliorate the latter's negative consequences, more attention needs to be accorded to the governance and regulation of firms.

1 INTRODUCTION

There is a growing concern worldwide about the social, economic and political consequences of rising inequality. It has been argued that rising inequality brings in its wake health, political and social ills (Skocpol and Hertel-Fernandez, 2016; Bor et al., 2017; Hacker and Pierson, 2020; Subedi, 2017). Against the backdrop of an increasing concentration of wealth at the top end of the distribution (see Bharti 2018; Blanchet 2016; Chatterjee et al., 2020; Piketty et al., 2019; Novokmet et al., 2018), the uneven spread and outcomes of the Covid-19 pandemic (see Stabile et al., 2020) have exacerbated this concern. At the same time, the rise of populism has widely been ascribed to a backlash against rising wealth and income inequality that is associated with declining or stagnant standards of living, combined with decreased access to "decent" jobs, as well as occupational and income precarity (Han, 2016; Berlet and Lyons, 2018).

The firm is an essential part of the process of wealth and income creation and distribution and, hence, plays a central role in mitigating or exacerbating inequality. Firms are defined to include both private or unquoted companies and public corporations. Both of these are separate legal entities but differ with respect to their organizational architecture and capacities (Veldman, 2019a) and their regulation and associated disclosure requirements. Many of the proposed explanations for increasing income and wealth inequality relate to how we see or conceptualise firms and the nature of their corporate governance: performance pay (Lemieux et al., 2009), skill-based technological change (DiPrete, 2007; Acemoglu, 2002), arbitrary management power (Gordon and Dew-Becker, 2007), diminishing bargaining power of (low-level) employees (Card et al., 2004), super-star labor markets (Kaplan and Rauh, 2009), increasing firm size (Mueller et al, 2017), foreign competition (Autor et al., 2013), and Big Tech firms or digital monopolies (Zingales 2020). Firms make choices as to the internal distribution of wages and wage security,

retirement benefits and job security; these are moulded by relative rights and behaviours of owners and other stakeholders, which tend to follow dominant patterns in specific institutional regimes whether these be national or broader (as in the case of financialization and platform capitalism). In many national contexts these regimes have worsened, and this has been linked to changes in corporate governance (Schymik, 2018; Till and Yount, 2019). More generally, there is increasing discontent about the role that firms play in achieving society's goals, leading to calls for them to consider responsibilities broader than shareholder wealth maximisation and to have other stakeholder interests entered explicitly into their objectives and decision-making (Haldane, 2015; Hart (2020), Veldman et al., 2016).

This article reviews how the literature deals with ways in which governance relates to, and impacts on, inequality. More specifically, it systematically reviews and synthesizes papers from several research areas in order to study the relationship between corporate governance (CG) and the unequal distribution, and reallocation of wealth and income. It is generally agreed that no one definition fully captures the study of CG, drawing as it does from a variety of fields of study (financial economics, corporate finance, management, organizational studies, industrial relations, etc.), so we begin by establishing a workable definition of CG.[1] We maintain a broad definition and borrow from Blair (1995), who defines CG as "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated." (ibid. p.3) This definition has the benefit of being broad enough to include both internal and external mechanisms that may or may not be mandated by law to cover these areas of firm behaviour (Goergen, 2018).

We expand this simple definitional framework to delineate the conceptual link between CG and inequality.[2] The firm is central to the issue of inequality because firms (both public and private) are the main institution in society through which value is created and distributed. External and internal CG processes are the transmission mechanisms through which societal forces are channeled through the corporation and into the distribution of income and wealth. More than simply determining "what public corporations can do," CG constrains, influences and shapes both the goals that firms set and the actions they take. In deciding how to organize itself, which products to market, how to produce and price them, and how to distribute its surplus, the firm makes decisions that determine which members of society receive an income, how much each member obtains, as well as how volatile this income may be. Wealth – the accumulation of income and ownership of assets – directly and indirectly shapes and is shaped by firm decisions and actions. For instance, maximising shareholder value affects the way a firm distributes value between workers and shareholders to the benefit of the latter. Deciding to implement performance-based compensation schemes may, inter alia, affect the way risk is allocated between management and owners. More broadly, CG can affect a firm's ability to prevent its goal-setting and decision-making from being abused for the benefit of a select group of stakeholders.

As an organizing principle, we divide the key aspects of CG into those external and those internal to the firm. Our focus is on how these aspects of CG can each affect inequality through their influence on firm behaviour. This is an important distinction because, for example, national institutions or market conditions can certainly have a direct effect on inequality across an economy on a top down basis, whilst internal ones may remake inequality from individual firms upwards.

Finally, we recognize that causality does not run in one direction: changes in inequality can themselves have an effect on CG arrangements and firm behaviour. Increasing disenchantment with the way society creates and allocates income can change the level of support for national institutional arrangements, lead to political action, and result in changes to the way firms are governed. Similarly, consumer backlash against specific firm practices can limit the set of actions available to a firm. Figure 1 summarizes the framework described in the preceding discussion.

FIGURE 1 HERE

We begin the review by focusing on external CG. A sizable literature exists on the effects of national institutions and their associated CG structures on inequality. This work studies the effects of different 'bundles' of institutions and how this impacts on the firm. Central to this literature is the assumption that the relative influence of actors and interest groupings varies between institutional archetypes or Varieties of Capitalism, and this impacts directly on the allocation of economic resources. This literature is firm centred and assumes that the latter is a major site of such allocations (Hall and Soskice, 2001).

Although this literature has been condemned for assuming path dependence, it does recognize that national systems do evolve and change. We explore two such recent changes that have, to differing degrees, taken effect throughout the world: financialisation and platform capitalism. The former describes the strengthening of shareholder rights under the law and via convention, and the increased power of financial intermediaries; again, this impacts on the allocation of the wealth firms generate by prioritising short term shareholder gains to the exclusion of other stakeholders (Clarke et al., 2010; Veldman 2019). Platform capitalism manifests itself when internet based intermediaries broker the sale of goods and services between producers or

providers and consumers, and in doing so, capture a relatively high proportion of the value generated, whilst securing (quasi-)monopolistic market positioning (Rahman and Thelen, 2019). Many of the Big Tech firms like Amazon and Uber are associated the emergence of a growing precariat with poor pay and employment conditions at the same time as their founders and other large shareholders have become the richest individuals in the world.

Financialization and platform capitalism both involve an economy wide set of specific developments and practices in their respective dominant firm type as illustrated in Figure 2. These set the broad parameters for external governance practices in both cases. In turn, each also has direct and indirect implications for internal corporate governance and income and wealth inequality. Within the firm, the relative power of senior managers and employees will vary according to institutional regime, but also through internal CG mechanisms that may be imposed by the law or develop on a bottom up basis.

More specifically, in looking at internal CG, our searches discovered two thematically coherent strands. The first focuses on one of the board's key responsibilities: the setting of executive compensation. Though it has long been understood that some inequality in pay within the firm is desirable in order to provide executives with the proper incentives, the recent literature provides insights into how excess can translate into increasing societal inequality directly, as well as indirectly, through its effect on decisions made within the firm and externally in the market. The second strand focuses on characteristics of the board, and how the distribution of decision-making power contributes to the determination of how the returns of the firm are allocated among stakeholders.

The paper is organized as follows: Section 2 provides an overview of the method used for the analysis. Sections 3 and 4 review the links between inequality and external and internal CG,

respectively. A final section concludes, drawing out potential future agendas for theorizing and enquiry.

2 METHOD

The method follows that of a systematic literature review (see Tranfield et al., 2003). Given the topicality of the area, and the related need to devote sufficient space to the most recent work, we concentrated our search over the years 2005 to the present. We also include earlier seminal works that helped define key debates. No other limiting parameters were placed on the searches.

In order to identify key strands in the literature and generate relevant search terms, we began with a broad search in a single, commonly-used database. A keyword search for "inequality" and "corporate governance" in SCOPUS yielded 73 results. After eliminating spurious results – largely in the form of papers focusing on *gender* inequality, without covering the economic dimensions thereof and/or without a firm centered analysis – we read the remaining 62 articles more thoroughly. From this preliminary search, we identified four main streams of focus related to specific areas of CG research: Varieties of Capitalism, financialisation, board composition, and executive compensation.

Next, we expanded our search by including additional databases. We ran similar searches in another commonly used database – Web of Science. Since this gated database yielded similar results, we also ran searches in Google Scholar. The latter yielded a great number of results, and we accordingly stopped logging articles when less than 10% of articles in consecutive pages of search results were relevant to our study. We also expanded our search by including similar and related terms (e.g. co-determination for board composition; performance pay, or CEO pay for executive compensation). In running these searches, we faced the problem that specifying

"income or wealth" inequality yielded limited results, while using only inequality yielded many spurious results related to alternate conceptualizations of inequality, including gender and race. We decided to work with the more general search term ("inequality") and eliminate the spurious results upon closer inspection of the title and abstract. In order to identify any relevant papers missed by the steps above, we also searched the references of the individual papers. In the process of expanding our searches, we identified a further topic that warranted additional attention – platform capitalism.

Table 1 summarizes the search process and number of results. Note that the results for the additional terms in the SCOPUS column do not add up to 62. This is because there was some overlap in the results, and because some papers did not fall neatly into the four categories. Some of the latter were broader survey papers.

TABLE 1 HERE

It is worth noting that the breadth and interdisciplinary nature of CG research implies that our approach is susceptible to overlooking contributions that have a bearing on inequality and CG, but do not make the connection explicit. Indeed, as we point out throughout the paper, and discuss in the conclusions, there is considerable scope for research in CG to make these connctions explicit and study the implications for CG in practice.

3 EXTERNAL CORPORATE GOVERNANCE

3.1 COMPARING NATIONAL INSTITUTIONAL CONFIGURATIONS AND INEQUALITY

With the literature on comparative CG, and, indeed, broader comparative institutional analysis, a rich body of literature argues that a bounded range of national institutional features mould the

choices of firms, and those that invest in them (La Porta et al. 1998; Hall, 2015; Hall and Soskice 2001; Whitley, 1999; Roe, 2006). A distinction is commonly made between national systems that prioritize the interests of shareholders – or, more broadly speaking, property owners – and those that seek to accommodate the interests of a much wider range of stakeholders (ibid.; Goergen et al., 2013). The early comparative capitalism literature draws a core distinction between Liberal Market Economies (LMEs), the developed Anglo Saxon Economies, and the Coordinated Market Economies (CMEs) of Scandinavia, the Rhineland and Japan (see Hall and Soskice, 2001). Later developments and critiques of this literature includes new archetypes to describe the Emerging Market Economies (EMEs) of Eastern and Central Europe and the Mediterranean Mixed Market Economies (MMEs), and indeed, a number of other emerging markets (Hancke, 2009). Table 1 shows that our search revealed quite an extensive body of literature in this area.

However, common to all this literature is that institutions have an impact on the relative bargaining power of different interests across society. Early work by Rueda and Pontusson (2000) analysing data across sixteen OECD countries revealed that institutional features and associated political dynamics explained the significant variation in income inequality between LMEs and CMEs. One of the architects of the *Varieties of Capitalism* approach, Hall (2015), highlights the extent to which there are many different regulatory paths towards securing and sustaining growth in the advanced societies and that some are associated with much greater social equality than others. Different types of institutions provide the basis for distinct forms of national competitive advantages, but each of the latter has distinct implications for equity and well-being (ibid.). Institutions are formed and reformed through agreements by key actors to solve challenges in coordination (Hall and Soskice, 2001). Dominant interest groupings will seek

to promote their interests, even if it may leave others worse off, although some compromises are necessary to ensure a basic degree of systemic stability. Hence, institutions may promote or mitigate inequality – indeed, a body of applied literature highlights how national level institutions may shape firm behaviour – whilst incentivising firms to conform to a dominant mode of governance (ibid.; Goergen et al., 2013). Actors have an interest in maintaining stable policy environments, as this allows them to plan for known complementarities, improving predictability and lowering transaction costs (ibid.). At the same time, institutional entrepreneurs may work to change the system to something more to their liking; in other words, firms and other actors may work to change the rules under which they operate (Crouch, 2005).

Other work has directly explored one aspect of national systems: labour institutions and markets. National systems may help sustain trade union density and/or centralized bargaining (Bosch, 2015) and these may constrain owner and managerial power and the relative allocation of firm resources (Hamann and Kelly, 2008). It is also possible that the capacity of national systems to generate jobs might be associated with relative social equality (ibid.). A variation of this explores the impact of national labour markets and welfare states, and the relationship to national skills bases (Lauder et al., 2008; Schroeder, 2019); in turn, this impacts on the relative position of labour and the extent to which owners and managers are willing to accede relatively more power and resources for employees.

Global trends can reinforce the national features described above. Greer and Doellgast (2017) point to common global forces driving greater insecurity in employment, with knock on effects for wage bargaining and equality (c.f. Heyes et al., 2014). Bruff and Ebenau (2014) argue that the comparative capitalism literature discounts general trends in the global political economy and the relative weakness of workers *vis-à-vis* firms in all contexts; national CG systems are

systematically loaded against workers. Such approaches highlight both the importance of historical legacies and politics in underpinning the nature of growth and the scale of inequality. Again, the state may play a role not only in terms of coordination, but also as a locus of rent seeking, particularly in economies where institutions are relatively fluid (Noelke, 2016; c.f. Lupu and Pontusson, 2011).

But national institutions can also moderate global trends. In looking at the varied performance of unions, Oskarsson (2005) argues that rather than becoming consistently weaker, the strength of organized labour has diverged across the developed world, and that empirical evidence suggests that this is bound up with institutions and dominant associated production regimes. Hall and Lamont (2013) suggest that liberalization yields distinct outcomes under different national institutional regimes. Within CMEs, many employers retain an interest in maintaining the broad status quo and associated institutions given both familiarity with how they operate and their proven benefits (ibid.). However, Hassel (2014) cautions that, although collective bargaining institutions have proven quite resilient, this should not be confused with persistence in real union power. Nonetheless, in CMEs with more centralised bargaining, wage inequality remains much lower than in LMEs with decentralised bargaining. Frege and Godard (2014) point to higher expectations of workers in Germany when compared to the US, which, in turn, helps in embedding overall societal norms. Schröder (2017) suggests that notions of social justice help underpin welfare states and associated national institutional configurations. In contrast, in more unequal societies, people are more willing to tolerate inequality (ibid.).

Others have looked at trends in inequality in the emerging market economies (EME) of Eastern Europe (including the former Soviet Union). Hamman and Kelly (2008) argue that there are limits to both market coordination in Slovenia and marketization in Estonia, the two former

socialist states that are widely held to have progressed furthest towards one or other of the mature capitalist archetypes. In part, this reflects both historical legacies and the role of elites: for example, extreme marketization in Estonia was checked by abiding elite concerns about the negative effects (rising inequality and insecurity) might have on social cohesion (ibid.). Adam et al. (2009) note that some EMEs retained relatively low-income differentials and these were those with stronger states. In contrast, mineral resources led to higher inequality; privatization of such resources opened the way for elites to capture a significant proportion of revenues, as evidenced by the cases of Russia and the Central Asian republics (Adam et al., 2009).

After initial criticisms that the V*arieties of Capitalism* literature underplayed the significance of systemic evolution, later accounts in this tradition responded through a focus on both systemic change and comparing theoretical predictions with realities on the ground. For example, Hall and Gingrich (2009) argued that if LMEs were more market reliant in adjusting wages and prices in response to changes in the global economy, then inequality should have risen in such settings. Empirical evidence confirms this has been the case, especially when compared to CMEs (ibid.). Hall and Gingrich (2009) suggest that this is because the CMEs retain a greater range of instruments in their policy repertoire – and political will – to "cushion" the negative effects of external pressures. Even more recent work has suggested this trend has contributed to political blow back in the leading LMEs; whilst right wing populism has made inroads worldwide, their capture of the political commanding heights in the two most archetypical such countries is of world historical significance (Cumming et al., 2020).

Thelen (2012) suggests that whilst differences do indeed persist within specific national systems, elements of one may manifest themselves in another. Rather than a focus on the sustenance of an immutable set of defining elements, national systems may persist through reconfiguration

through the activities of existing players that have an interest in its persistence (ibid.) in contrast with those institutional entrepreneurs that seek a fresh departure. For example, in Germany, the national training system has if anything been strengthened even as social protection has been somewhat weakened. This may account for the revitalisation of the German model whilst it continues to provide for significant market coordination and associated models of CG whilst undergoing changes in other areas. Lallement (2011) argues that in LMEs, there has been a heightening of "misadjustments," worsening inequality. There have also been reformist adaptions in CMEs, whilst in the Mixed Market Economies of the Mediterranean world, existing inequalities have been reinforced (c.f. Heyes et al., 2014).

Kenworthy (2010) argues that relative inequality reflects both corporatist concertation (i.e. cooperation between opposing interest groupings) and the type of government partisanship; in turn, this will impact on modes of governance, the range of choices open to owners and managers, and the choices they make. A possible criticism of such views is the specific nature of causal relations; Davis (2017) notes that inequality directly stems from the employment practices of organizations, and, in turn, these are moulded by institutions and associated modes of external and internal CG, rather than being a direct outcome. Milberg and Winkler (2010) argue that, whilst inequality has greatly worsened in LMEs following the onset of the global financial crisis in 2008, trends in precarious and involuntary employment and rising inequality predated this. Rather, an increasing focus on shareholder value worsened financial speculation, whilst lower earners were forced to turn to increasing borrowing: both imparted further uncertainty into the financial system. More recent research has also highlighted the issue of job quality; a greater proportion of new jobs created in LMEs are insecure, involuntary part time, and/or very poorly

(and contingently) paid than in CMEs (Ferdosi, 2019). Indeed, if involuntary part time working is considered, LME job creation does not look nearly as glittering (Howell and Kalleberg, 2019).

3.2 THE EVOLVING FIRM AND INEQUALITY

Although the broader institutional approach discussed in the previous section allows us to frame and understand the environment within which inequality occurs, pivotal economic processes identified in the previous paragraph in themselves need to be understood in relation to inequality. In the following section we focus on two such processes: financialisation and platform capitalism. One way of characterising these is to focus on the salient features of the dominant firm type and structure under both. Table 2 outlines these. Under financialization the public corporation is the dominant firm type in terms of output and profits and the agency is the CEO and top executives with a traditional CG structure. They take advantage of economies to scale to grow into oligopolies. The dominant firm type under platform capitalism is Big Tech firms such as Facebook and Google - which include public corporations - and unicorns such as Bytedance (which operates TikTok) and SpaceX which are large private or unquoted firms with respective valuations of $140bn. and $74bn. as of March 2021. Whilst historically public corporations were much larger than private (with the exception of some family) firms, these unicorns now are often much larger than many public corporations.

3.2.1 Maximising shareholder value and financialisation

Although there are many approaches to characterising financialisation in the literature (see Davis (L.E.) (2017) and Van der Zwan (2014) for recent surveys), we focus on the idea that financialisation encompasses an intensified emphasis on maximising short term shareholder value (see Table 2) together with an increased prominence for finance and financial services (Clarke et al., 2010). Financialisation has been linked empirically to inequality. More

specifically, recent contributions focus on the impact of financialisation on the wage share and inequality.

Stockhammer (2013) uses a panel of 71 countries from 1970 to 2007 and find that financialisation has been the main cause of the decline in the wage share. For 14 OECD countries over the 1992–2014 period, Köhler et al. (2019) find that financial liberalisation - the opening of domestic financial markets to foreign capital - and the financial payments of nonfinancial corporations (NFCs) exert a downward impact on the wage share that is of comparable magnitude to the effects of globalisation. Makhlouf et al. (2020) investigate the short- and long-term effects of finance on inequality for a sample of 21 OECD economies over 1870-2011. Their results show that, whilst financial development tends to reduce inequality in the short run, financial deepening leads to more inequality in the long run. A study on the allocation and compensation of human capital by Philippon and Reshef (2012) documents a significant increase in the contribution of finance to changes in income inequality in the US after 1980. Lindley and McIntosh (2014) indicate a rising finance sector wage premium.

The intellectual origins of shareholder primacy can be traced from the Berle and Means (1932) theory of the modern corporation to Friedman's (1970) assertion that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game," to modern finance's reliance on agency and contract theory. Lazonick and O'Sullivan (2000) argue that the focus on shareholder value rose to prominence partly due to the Reaganite and Thatcherite revolutions in the1980s – involving fundamental deregulation of financial and labour markets – and partly due to the rise of institutional investors with short term outlooks. These processes continued and accelerated into the 2000s (Tomaskovic-Devey and Lin, 2013). We focus on the effects of

financialisation on inequality through the constraints and incentives it created for management and the changing role of finance.[3]

Financialisation induces managers to focus on short term actions (such as share buybacks) that enhance the valuation of equity-based wealth. The underlying governance structure enables top executives to enjoy unprecedented influence over their boards (Bebchuk and Fried 2005). This mechanism is well explained in Veldman (2019) who argues that, from the 1970s onwards, a theory of CG set in that benefited exclusively market-oriented and short-term executives. This affected the broader distribution of corporate value at the expense of other stakeholders. Alvarez (2015) stresses the shift in incentives for corporations to move investments from real assets to financial assets. His empirical analysis shows that increased dependence on earnings through financial channels in NFCs results in eroded labor bargaining power and the lower wage share in France over 2004-2013.

In the face of globalisation and financialisation, executives also enacted short-term strategies to increase profitability through rationalising costs, rather than investment and expanding capacity and productivity. Building on such arguments, Tridico (2017) finds that financialisation is associated with declining welfare and union coverage, and measures to promote ever more flexible labour markets. In many firms the internal labour market changed focus to jobs, rather than worker characteristics, to determine pay (Cobb and Lin, 2017) allowing for easier social comparisons of wage, and wage compression (Cobb and Stevens, 2017). This process led to a drastic reduction in the size of internal labour markets and a turn to (increasingly deregulated) external markets, through use of outsourced and temporary workers. In a second step, the smaller internal labour market allowed more refined segregation of labour and made it more difficult for workers to organise and increase their bargaining power (Bapuji et al., 2018). Thus, the

segregation of jobs created reward structures that were generous at the top but devastated the bottom.

Firms increasingly use resources to repurchase their own shares through stock buybacks, rather than investing for the benefit of their workers and in long term growth. This allows them to achieve their short-term profitability targets while also inflating executive compensation (Lazonick, 2014). Indirectly, this CG approach allows the better-off to invest in financial markets and profit from rising share prices and other financial investments, whereas workers are largely excluded from these financial gains. Furthermore, rising inequality tends to depress demand, given that the rich have a much higher propensity to save, which in turn causes excess labour supply, unemployment, and downward pressure on wages (Nölke, 2018; Carruthers and Kim, 2011).

Financialisation has, via structural deregulation, benefitted large financial institutions (FIs) through new financial products (e.g. collateralized debt obligations), international expansion and growth via mergers and acquisitions. FI assets relative to GDP continued to rise significantly and by the early 2000s in the US, for example, the top three FIs controlled over 35% of the banking sector assets, giving them an oligololistic concentration of economic and market power that was unprecedented. Tomaskovic-Devey and Lin (2013) posit that these developments, coupled with the impact of financial market innovation and the shift in investment strategies of NFCs, have played a significant role in reducing employment and increasing inequality in FIs' home countries. The channels through which this affects firm decisions are not well understood, but it seems the oversight provided by different sources of funding matters. A recent study by Brei et al. (2018) on 97 economies over 1989-2012 finds that the relationship between financial structure and income inequality is not monotonic. Finance reduces inequality only up to a point

after which inequality increases if finance is expanded via market-based financing, while it does not if financing grows via traditional bank lending. Similarly, Jacobs and Mazzucato (2016) note that the negative influence of finance on firms also applies to capitalist but bank-oriented systems like those of Germany and Japan.

Zalewska (2016) argues that because of the interconnectedness of the banking sector and its potential for systemic risk, it is necessary to consider the issue beyond national governance structures, practices and culture. This is important because the GFC exposed the international repercussions of bad financial incentives. Yet financialisation intensified in the aftermath of the GFC, with an ever-increasing leveraged society fuelled by low interest rates and unorthodox monetary policy tools, leading to greater inequality and instability.

Financialisation and shareholder primacy have led to a debate on the future of the modern corporation that recognises that many of its features are changing including the role of CG. Mayer (2013) contends that shareholders exert excessive control over the modern corporation with the result that it exerts negative effects both on society and the economy. His CG proposals include a board of directors that strikes a balance between the interests of shareholders and other stakeholders and that is independent of shareholders and management. Another is that long-term shareholders should decide on the firm's future and that the influence of short-term shareholders – so prominent under financialisation - should be curtailed.[4] Veldman et al. (2016) address the debate about the role of corporations in society and the implications for CG. Their conclusion is that the CG of large public corporations needs to be broadened to take account of the corporations' responsibilities vis-à-vis society and the environment (see also Hart, 2020).

3.2.2 *Maximising market share under platform capitalism*

Davis (2017a) was prescient about the demise of the public corporation when he concluded it is an "increasingly outdated way of organizing the economy in the U.S." This is illustrated in Table 2 which contrasts the firm under both financialisation and platform or digital capitalism. Rahman and Thelen (2019) view the platform firm as moving beyond both financialisation and related developments in labour markets in twenty first century capitalism. The latter involves the Nikeification of firms that retained only core high value-added activities and outsourced and franchised all of the non-core and typically low wage activities (Davis, 2015. It also entails what Weil (2014) calls the fissurization of the workplace with a deepening institutionalization of inequality. However, it should be stressed that the new platform firms including digital monopolies have not entirely abandoned all these features.

The dominant firm type under platform capitalism is Big Tech firms - which are public corporations - and unicorns which are private or unquoted firms.[5] The latter are large market capitalisation in excess of $1bn) with the Ant Group being valued in excess of $300bn before its recent postponed IPO. Google is one of the best known Big Tech firms worldwide and is a prime example of the Zingales (2020) concept of digital monopolies. The latter are the product of two features. One force of concentration is direct and indirect networks externalities which enable platforms firms to scale up their operations extremely rapidly (Evans and Schmalansee, 2016). This contrast with economies of scale as the driving force under financialisation. The other is their hoovering up and monetisation of both personal and customer data as part of their marketing strategies (Zuboff, 2019).

Whilst oligopolies were the dominant firm type under financialization, emerging monopolies are the corresponding type under platform capitalism. The sheer size of the platform monopolies is

enormous. In January 2020, Google's parent Alphabet became the fourth US company ever to achieve a $1tn market valuation.[6] Google and the other 3 - Apple, Amazon, and Microsoft - are part of a group of 7 tech giants comprising Facebook, Amazon, Microsoft, Apple, Netflix, Google and Spotify (collectively known as the FAMANGS). In early 2021, these accounted for more than 20% of the market value of the S&P500 index that is comprised of the 500 largest US corporations. These digital (platform) monopolies along with other Big Tech forms like Tesla or AirBnB are the most visible proponents of what we call digital or platform capitalism. It is worth noting platform capitalism has flourished in both an LME like the US and in a state capitalist economy like China with some similar but other distinctive characteristics, most notably the lack of personal data privacy in China.[7] This suggests that platform capitalism may turn out to be more of a global phenomenon than financialisation.

All of the larger platform firms share common features. Their CEOs typically are their founders (such as Mark Zuckerberg at Facebook or Jeff Bezos at Amazon) who retains large stakes in their firms and effectively act as blockholders with unprecedented influence on the internal CG of their firms. Venture capital (VC) and private equity (PE) investors - whom Rahman and Thelen (2019) dub patient investors in this context – also act as blockholders in platform firms. Thus we characterise their agency as founder CEOs and VC/ PE backers. This combination makes them all powerful in pursuing their goal of market dominance which we interpret as maximising market share. The latter in turn boosts their market valuation by offering investors the prospect of capturing monopoly rents.

A related feature of platform firms is their unorthodox CG norms form part of their general strategy of disruption and antipathy towards regulation of any sort. This aspect is stressed by Rahman and Thelen (2019) and Kramer (2019). The latter also mentions tendencies towards the

formation of monopolies with the potential to extract associated rents. Control of the firm is achieved by dual class share (DCS) ownership structures which gives their founders and VC and PE backers virtually complete control over decision making.[8] Under this structure, the founder and backer shares carry far more votes and so they continue to control these companies after their IPOs. Govindarajan and Srivastava (2018) point to the practice of DCS escalating in the 21st century. The IPOs of tech companies like Facebook, Google, Alibaba, LinkedIn, and others like RE/MAX, WebMD, and Yelp have all adopted DCS structures. Snapchat took this concept to an extreme by attaching absolutely no voting rights to their IPO shares.

The large platform firms have led to egregious levels of income and wealth inequalities at both extremes of the distribution. However, apart from Oxfam (2021), very few have shone the spotlight on the extreme levels of personal wealth enjoyed by their founders and backers. Schor (2017) identifies Big Tech's untrammelled for-profit motives as having begun with the involvement of VC backers. Since it is extremely difficult to get data on the remuneration of VC partners, here we detail the enormous wealth of some Big Tech firm founders while recognising that more systematic research is required. Their total remuneration packages are almost entirely based on the huge increases (appreciation) in their shareholdings. By contrast, salary levels in this context are a distraction as, for example, Mark Zuckerberg's annual salary at Facebook is just $1! At the end of 2020, four of the world's top five centibillionaires (with wealth excess of $100bn) were the (co-) founders of Big Tech firms. The personal wealth of Jeff Bezos, the founder, CEO and Chairman of Amazon, exceeded $200bn in August 2020 but had fallen back to $187bn by late December. The remaining Big Tech centibillionaires are Elon Musk at Tesla, Bill Gates ex-Microsoft, and Mark Zuckerberg at Facebook who became the youngest

centibillionaire in August 2020 at the age of 36. On any count, these extreme levels of personal wealth of the Big Tech founders are conspicuous.

At the other extreme of the income distribution, several studies have focused on the plight of low paid gig workers that are classified as independent contractors - without the usual employee rights - rather than employees at firms like Amazon and Uber. Thelen (2019) documents how gig work is one of several forms of atypical employment on the rise in economies as diverse as the US and China. This feature relates directly to low pay, wage inequality and impoverishment for most of the workers reliant on this as their main source of income. Fleming (2017) refers to the Uberization of the platform economy workforce in this context. Rahman and Thelen (2019) argue that big platform firms like Uber and Amazon eschew standard employment contracts for most of their drivers by building upon cost-cutting labour practices. Their drivers as independent contractors are faced with low fees for their work, little or no social benefits, and no sick pay. A Superior Court judge in the state of California ruled in August 2020 that Uber and Lyft drivers should be treated as employees (not contractors) and were entitled to sick pay, holidays and other benefits, a stance supported in an FT editorial. However, Uber and Lyft spent more than $200m in late 2020 in lobbying and legal fees that helped them overturn this ruling in late 2020.

These gig economy workers join others on contingent or atypical employment contracts as part of what Standing (2011) and Thelen (2019) call the precariat. The latter gives an extensive account of the growing importance of the latter in the US labour force and of their increasingly desperate plight in a country where the typical safety net of CME social benefits is simply absent. Schor (2017) points out that high-skilled workers and others with top qualifications can use platforms to increase or supplement their incomes. However, for low-skilled workers struggling to survive, the relationship is reversed, and the inherent competition generated by the

platform decreases their incomes. Kramer (2019) highlights the effects of platform firm robotization and artificial intelligence on the labour market. He views the impact as rising unemployment and a further increase in income and wealth inequality.

There are two pressing issues about the very large platform or Big Tech firms like Amazon, Google and Facebook. First, they are digital monopolies (Zingales (2020). Guggenberger (2021) describes them as the modern railroads that control the bottlenecks of the internet and so tend to nudge customers towards their own rather than third party products. Thus, the regulation of Big Tech firms is exercising the regulatory authorities in the US, UK, the EU and China. The second issue is that these firms are not complying with the spirit of the social contract on two grounds. On one hand, they eschew responsibility for the welfare of their gig workers and, on the other, they use creative accounting to minimise their corporation tax burden. Indeed, several of them like Amazon and Apple view tax avoidance as a competitive advantage. Both of these place an extra burden on the welfare state or support systems in other economies. Faroohar (2019) makes some interesting proposals in this context.

4 INTERNAL CORPORATE GOVERNANCE

Internal CG relates to actions and responses to governance issues arising withing firms. In recent decades this has focused on mechanisms that reduce frictions between managers and, primarily, different groups of shareholders, in the pursuit of maximising shareholder return (Filatotchev and Nakajima, 2010). As a result, the existing literature on this topic focuses on both the theoretical and actual primacy given to shareholders in CG as a key to the propagation of income and wealth inequality. In light of the empirical studies by Piketty and others that show extreme rises at the top-end of both the income and wealth distributions (e.g. see Piketty and Saez, 2003; Saez and Zucman, 2014), attention has inevitably focused on CEO remuneration,

and the mechanisms involved, in driving these inequalities. Inside the CG sphere, however, Bratton (2010) notes that level of compensation is not by itself seen as a problem, as it is situated within the narrow paradigm of shareholder value. There is, then, a clear need to situate CG analysis in a larger socio-economic context that takes account of the implications for income and wealth inequality. We therefore first review the literature on executive compensation, before addressing the structures within which compensation is determined, namely boards, their composition, and co-determination.

4.1 Executive compensation

The popular press has devoted a great deal of attention to rising executive compensation, especially when considered in relation to the pay received by a firm's average employee. Approximately one in three income earners in the top one percent are executives, managers, or supervisors, and one of the things that sets them apart from other top earners is that most of their income comes from compensation in the form of salaries, fees, bonuses, stock options, etc. rather than from income derived from assets (Jacoby, 2008; Saez, 2018).[9] There is already a vast literature on the determinants of CEO compensation (see, e.g., Murphy, 2013), which we do not attempt to cover here. Instead, we focus on more recent work linking CG, executive compensation, and inequality more directly. We make a distinction between, firstly, work that presumes executive compensation practices are designed optimally to achieve a desired goal – that is to say, they represent "good" CG, and secondly, work that makes the argument that executive compensation practices represent a failure of CG.

In an attempt to design "optimal" contracts, boards have increasingly relied on the use of performance-based pay and external benchmarking, especially in CEO compensation (Frydman

and Jenter, 2010; Edmans and Gabaix, 2016). Mueller et al. (2017) provide evidence that inequality (measured by pay ratios between different hierarchical levels) reflects differences in managerial talent and contribution to output. In addition, competitive forces mean that even small differences in CEO talent can translate into very large differences in CEO pay (Gabaix and Landier, 2008). In a world where companies increasingly take advantage of economies of scale and international agglomeration, executive compensation practices amplify inequality.

Inequality is propagated not just by giving more resources to CEOs, but also by giving less to lower-level employees. The pressure to reduce labor costs by whatever means necessary, the push to eliminate defined-benefit pension plans, and "the imperative to do more with less" result in the employers' inability to honour their side of various commitments made to lower level employees (Dunne et al, 2018).

The use of performance-based pay for executives can also alter the behaviour and pay of lower-level employees in more nuanced ways; both in the way it is implemented and by being applied to a wider proportion of the workforce. Bandiera et al. (2007) find that when a manager's compensation depends on the average productivity of low-tier workers, the dispersion of low-tier wages increases – inequality among low-level workers is driven by the incentive scheme of the manager. Similarly, performance-based pay is increasingly implemented on lower-tier workers, further increasing the dispersion of income within similar groups of workers (Faggio et al., 2010). As performance pay becomes more widespread at different levels of the organization, inequality is exacerbated even as firm performance improves.

Compensation schemes can also increase inequality in ways that negatively impact the firm. Though benchmarking executive compensation is intended to help boards gather information about the market for CEO talent, Pittinsky and DiPrete (2013) show that companies tend to

"cherry-pick" peer groups in ways that upwardly bias executive compensation. De Vaan et al. (2019) find that there are strong incentives for CEOs to influence the selection of peer groups used in benchmarking. As a result, the average firm uses an upwardly biased peer-group in benchmarking executive compensation, allowing CEOs to normalize higher (and less variable) compensation.[10] This can lead to a rightward shift in the entire executive pay distribution (DiPrete et al., 2010).

Moreover, inequality can also have a negative impact directly on firm performance. Tarkovska (2017) finds that the CEO compensation relative to other executive directors can have a negative impact on board performance through a social comparison effect. Faleye et al. (2013) find that tournament incentives only increase productivity in the smallest firms. Other recent work looks at a variety of negative effects of pay inequality (and in particular performance pay) on other aspects of firm performance. Performance pay is associated with a higher propensity to engage in fraud (Haß et al., 2015), misreporting (Armstrong et al., 2013), and excessive risk-taking (Goel and Thakor, 2008). Excessive CEO compensation can also harm firm performance and inflict larger social costs as inequality concerns infringe upon social norms. Firms face the potential of norm enforcement behaviour (Rost and Weibel, 2013) and should take the possibility of public outrage into account when making executive pay decisions (Bebchuk and Fried, 2005). Firms must also begin to realize that, in the absence of internal checks on the impact of executive compensation on societal inequality, their hands may be tied by regulatory or other external constraints.

Recent work has studied some mechanisms for firms to commit to or coordinate on methods for restricting CEO compensation. Some possible solutions include greater disclosure, Corporate social responsibility (CSR) practices, and capping executive pay. Mandatory disclosure has been

shown to help keep CEO pay in check by improving shareholders' ability to monitor board decisions (Marino, 2016), though Mans-Kemp and Vivers (2018) caution that this depends on the measures disclosed. A natural question is whether corporations would benefit from disclosing similar information of their own accord. CSR initiatives can serve as complementary policies to compensation fairness initiatives (Ptashnick and Zuberi, 2015). But it is also possible that socially responsible practices are seen as substitutes by firms trying to signal social responsibility (for the case of commitments to sustainable development, see Gómez-Bezares et al., 2019). An alternate solution is to cap CEO pay. Thanassoulis (2014) finds that a regulatory pay cap on bankers' pay in proportion to a bank's balance sheet characteristics can lower the bank's risk and raise its value.[11] Caps have also been implemented relative to the firm's average wage (e.g. Whole Foods) but there is no formal research on the antecedents or effects of this type of policy.

As outlined in the introduction, CG practices that contribute to inequality – including executive compensation – can be affected by external factors. For example, faced with increasing foreign competition, managers may use even more performance related pay and/or increase the sensitivity of pay to performance (Cuñat and Guadalupe, 2009). External factors seem to exacerbate some internal issues. Another example is the rising importance of global institutional investors. Connelly et al. (2016) report that transient institutional investors, with short investment horizons and highly diversified positions, positively influence pay dispersion whereas dedicated institutional investors negatively influence pay dispersion. Global institutional investors can also influence the adoption of practices, like stock option pay in environments that are less open to shareholder-primacy (see Geng et al., 2016 for the case of Japan).

A common criticism of research on executive compensation is that there is an overemphasis on financial compensation. There are a variety of non-monetary motivators to explore, and boards

would do well to broaden the tools used to compensate and provide incentives for executives. Till and Yount (2019) develop an alternative Justice Stewardship Theory that attempts to include care for employees, the common good, and other goals associated with Catholic Social Thought. The challenge going forward is to develop more alternatives and to formalize their incentives in a way that is as straightforward and implementable as monetary incentives. An alternative and increasingly popular approach involves tying financial compensation to a more expansive and inclusive set of goals. Explicitly entering other stakeholder interests in the objectives and decision-making of the firm and incorporating them into key performance indicators and executive incentive schemes could help address many failings in CG, including its contribution to inequality (Haldane, 2015; Veldman et al., 2016).

In summary, there are two competing views on executive compensation. The goal of shareholder wealth maximisation and the primacy of the principal-agent approach drive governance schemes that implement executive compensation practices which, in turn, cause inequality. In this telling, inequality is a result of compensation structures required to give managers the incentives to act in the best interest of shareholders. Differences in the features of the market for managerial talent (Mueller et al., 2017; Gabaix and Landier, 2008) or the way these incentives are applied (Bandiera et al., 2007; Faggio et al., 2010) exacerbate inequality though they are a necessary part of CG. Well-functioning internal CG results in inequality. But increasingly, there is evidence that executive compensation is not designed purely from the point of view of agency issues and optimal contracting. Our systematic search of the literature highlights a stream of literature that focuses on executive compensation practices as a failure of CG. In this telling, inequality is a result of the distortion of executive compensation in favor of management (Pittinsky and DiPrete, 2013; De Vaan et al., 2019; DiPrete et al., 2010), unintended incentives to act contrary

to the best interests of shareholders (Tarkovska, 2017; Faleye et al., 2013; Haß et al., 2015; Armstrong et al., 2013; Goel and Thakor, 2008), and not internalizing the potential backlash to firms for their role in increasing inequality (Rost and Weibel, 2013; Bebchuk and Fried, 2005). Inequality driven by executive compensation practices is not consistent with the goals of the firm.

The literature presents some mechanisms for firms to commit to or coordinate on methods for restricting CEO compensation, but an important and open question remains with regard to balancing the need to provide management with incentives with the need to reduce inequality. CG research should contribute to our greater understanding of the way in which executive compensation can be optimally structured, and whether proposals to reform corporate governance, for example expanding the involvement of other stakeholders, will impact on executive compensation specifically.

4.2 BOARD COMPOSITION AND CODETERMINATION

As previously mentioned, expanding the set of influential stakeholders could help address some failings in CG (Haldane, 2015; Veldman et al., 2016). A key approach to introducing broader stakeholder motives is through board representation. Greater employee representation on boards can contribute to reducing the emphasis on shareholder primacy and the pressures of financialisation (Faleye et al., 2006; Ginglinger et al., 2011, Berger et al., 2019). This strategy has been effective in reducing gender inequality (Akca and Çaliskan 2018; Balasubramanian 2013; Carrasco et al. 2015; Lazzaretti et al. 2013; Owen and Temesvary 2019; Seierstad et al., 2017). But it is not clear that representation, in and of itself, will necessarily reduce income inequality. Kim et al. (2018) present evidence that, even though representation makes employees

better off by improving risk sharing between employees and employers, workers have to 'pay' for it with lower wages. In contrast, Jung (2016) empirically demonstrates how the influence of workers who seek job security impedes total downsizing but facilitates managerial downsizing. There is a need for more evidence in understanding under what circumstance participation influences inequality. Given the limited 'natural experiments' available to explore this, this represents a significant challenge. Another approach that requires further empirical and theoretical investigation is that of sustained business excellence, which looks to incorporate socially conscious values into corporate culture (e.g. Haldane, 2015; Hart, 2020, Jabnoun 2019; Strine, 2014).

Codetermination provides a promising avenue to explore ways companies can reform to address inequality. There are several definitions of codetermination in terms of employee influence on CG, although worker directors are the most important and at the highest possible level, and indeed, this is where most of the academic literature that deals explicitly with CG and codetermination is clustered (Du Plessis et al., 2017). Worker directors can have a potentially important effect in alleviating imbalances of power – and allocation of resources – between employers and workers. It means employees have insight into and participate at the highest level of decision making in the firm. A variety of reasons have been proposed for why capital governs the firm and hires labour as opposed to the other way round, including risk aversion, incentives, or simply that the system favours property owners (Dow and Putterman, 1999). Even if worker directors represent only a minority voice, it encourages other parties to express their agendas in more inclusive and conciliatory terms. However, much of the literature on codetermination focuses on how this supports incremental innovation, rather than on the distributional effects (Scholz and Vitols, 2019). Kraft et al. (2011) reject the argument that worker directors dilute

owner power and lead to employee shirking and other inefficiencies (Spencer, 2020). Drawing upon German evidence, they suggests the result is a redistribution of rents, and does not affect productivity adversely. Alongside owners, employees have sunk capital in the firm, the latter in the form of organization specific skills and knowledge; codetermination protects such investments (Scholz and Vitols, 2019). Moreover, given these investments, employees are likely to have important information on optimising both wage distribution and capital allocation. Indeed, Scholz and Vitols (2019) suggest that codetermination may enhance productivity, as well as the quality of production.

Both sides of the debate agree that codetermination, and more specifically worker directors, impact on wage distribution. In comparing relative strength of codetermination requirements across both the EU and the OECD, Bosch and Weinkopf (2017) conclude that codetermination rights have a significantly negative impact on Gini indexes. McGaughey (2016) suggests this is the case because codetermination alleviates the effects of market failure: in the absence of such measures, wage inequality further weakens the bargaining power of workers, worsening transactional imbalances.

The primacy given to shareholders has been a "device for achieving a particular distribution that favours a select group of financial institutions, shareholders and executives exclusively rather than all stakeholders" (Clarke et al., 2019, p.7). One response has been to argue that possession of shares is distinct from the ownership of a corporation. Whereas shares give residual claims and voting rights, they do not give rights directly to use or manage the assets in the companies. Hence shareholder priorities are only partially representative of the interests of a company and lead to short term speculative decisions that undermine the assumption that pursuing shareholder value will lead to maximisation of aggregate social wealth (Ireland, 2005). In this regard, the

theory needs to reincorporate how internal CG mechanisms relate to other stakeholders of the company. Different approaches to understanding the nature of a corporation beyond the nexus of contracts view are suggested by many, including Cioffi (2010) and Weinstein (2012).

The prevalent model of board composition, focusing on shareholder representation, reflects a narrow definition of ownership that has led to policies and actions that have shaped inequality. Broadening the notion of ownership helps us to understand internal CG's role as having an expanded domain of influence, and as such, provides an agenda to explore its potential to reduce inequality. This area needs further empirical work to understand under what circumstances, in different institutional environments, opening up board composition to workers can be successful at reducing inequality, while meeting all stakeholder objectives.

5 CONCLUSION

Our goal in this review has been to better understand how CG, through its influence on firms' goals, decisions and actions, can play a role in one of the central questions of contemporary society – inequality. In order to do so, we carried out a systematic review of the literature and identified key insights and important gaps. In this section, we highlight some key takeaways.

The review on external CG documents the importance of contextualising it within relevant institutional frameworks, and to explore how the interrelations between the firms in contemporary capitalism (financialisation and digitisation) and CG, shape inequality. Stakeholder power varies according to national corporate governance system and this directly impacts on managerial practice, and, hence, income inequality (Cobb, 2016). There is much room to further explore the divergent effects of corporate governance reform, and how its effects are moulded by existing and emerging political dynamics, and relative stakeholder power.

One of the most salient trends identified is the rise of platform capitalism (Rahman and Thelen, 2019) or digital monopolies (Zingales, 2020) that raise explicit concerns about increasing wealth and income inequality. These include a rapidly growing precariat of gig workers with none of the rights enjoyed by traditional workers. While gig workers may place additional burdens on welfare provision, Big Tech firms engage in widespread tax avoidance despite record profits. Finally, Big Tech entrepreneurs enjoy extreme levels of personal wealth alongside untrammelled levels of control over their firm via dual class share schemes. All of these offer scope for further research.

The review on internal CG reveals how the literature is limited in its reliance on agency theory and shareholder primacy. In an attempt to provide management with the proper incentives to overcome agency problems, inequality has been allowed to increase unchecked as companies become larger, industries more concentrated, and as performance pay is implemented at lower levels of the company. There is also convincing documentation that the process for determining executive compensation can be abused, create incentives to make bad decisions, have disincentive effects on other employees, and inspire a backlash from the rest of society. Attempts to diversify board composition have had some success in alleviating this problem, but have been limited in scope.

The broad and undeniably heterogenous literature on inequality and governance both provides detailed insights on the present condition, and implicitly or explicitly opens up a number of directions for future research. Firstly, the literature is divided into distinct disciplinary silos. Many of the links to external or internal CG are implicit or assumed rather than fully articulated as would be possible in an interdisciplinary framework. Secondly, there is scope for both theoretical and empirical work to better understand the role that CG can play in limiting the rise

of inequality and, in particular, what actions can be taken to alter the governance structure in order to change the way firms do things. Thirdly, the rise of right-wing populism, in a growing number of countries, including the US, UK, Brazil and India, highlights the importance of taking politics into account; rising inequality within the firm has, when coupled with the hollowing out of the welfare state, led to political blowback (Skocpol and Hertel-Fernandez, 2016). Yet, the remedies of right-wing populists often incorporate elements of disaster capitalism (Wilkin, 2018), in turn, opening the way for even greater inequality.

The literature on attempts to restrict CEO pay are not conclusive, either with respect to their effects on inequality within the firm or in society as a whole. Details of the policy changes, as well as the institutional backdrop play an important, and as yet not well understood, role. Future CG research should help practitioners to design executive compensation policy that provides the proper incentives for senior management and addresses perverse incentives and negative knock-on effects. The reliance on agency and stakeholder theory is thus a limiting factor in the development of our understanding of CEO compensation and its role in fostering inequality. But, much as shareholder primacy and agency theory have exacerbated inequality in unexpected ways, it is important to develop a better understanding of how alternate frameworks will play a role in determining inequality of income and wealth. Though some alternatives have been proposed (see, e.g. Veldman et al., 2016), the mechanisms through which they would address inequality are not clear. This review argues that future research should take into account the specific institutional context, as well as the increasing importance of new modes of business, most importantly platform capitalism.

Of course, the final step would be to unify external and internal CG into a consistent and coherent theoretical framework that takes account of the institutional context and internal

mechanisms that affect inequality. Although the literature on comparative capitalism argues that it is a firm-centred analysis (Hall and Soskice, 2001), evidence based on intra-organizational practices (as adverse to contextual features), remains limited (Wood et al., 2014). An important extension of this, in the current climate, would be to focus on risk culture and how CG changes within tech firms.

ENDNOTES

[1] Leading textbooks on CG tend to offer a menu of definitions varying in scope and focus (see, for example, Goergen, 2018; Mallin, 2016; or Tricker, 2015).

[2] Our focus is on income and wealth distribution, though we recognize that corporate governance also has an impact on other forms of inequality, including race and gender. For surveys on these topics, see Adams and Funk (2012), Bapuji et al. (2020), Field et al. (2020), and Nguyen et al. (2020).

[3] Another effect commonly associated with financialization, rising executive compensation, is discussed in detail in section 4.1.

[4] See also Singh et al. (2005).

[5] See Faroohar (2019) for a sceptical view of such Big tech firms.

[6] "Reasons to beware the growing $1tn tech club" *Financial Times*, January 19, 2020. https://www.ft.com/content/a8dade28-392d-11ea-a6d3-9a26f8c3cba4

[7] See Lüthje (2019) for a distinction between the German production-driven and Chinese distribution-driven pathways to manufacturing digitalisation. The main difference is that the latter is e-commerce driven relying on big platform giants like China's Alibaba and Tencent.

[8] The economic evidence on DCS is mixed but Gompers et al. (2010) found lower stock returns for DCS firms relative to single-class firms using US data from 1994-2002.

[9] Big tech executives also hold shares in their companies and thus benefit from the share price appreciation. Mark Zuckerberg is a prime example despite his salary of $1 with current wealth in excess of $100bn!

[10] A similar argument has been made about the role of pay consultants (Bebchuk et al., 2002), though this is contested (Voulgaris et al., 2010).

[11] Thanassoulis (2012) warns that such a cap can have negative effects if the regulator only controls a small subset of banks.

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FIGURE 1: A SIMPLIFIED FRAMEWORK FOR CORPORATE GOVERNANCE, INEQUALITY AND THE FIRM

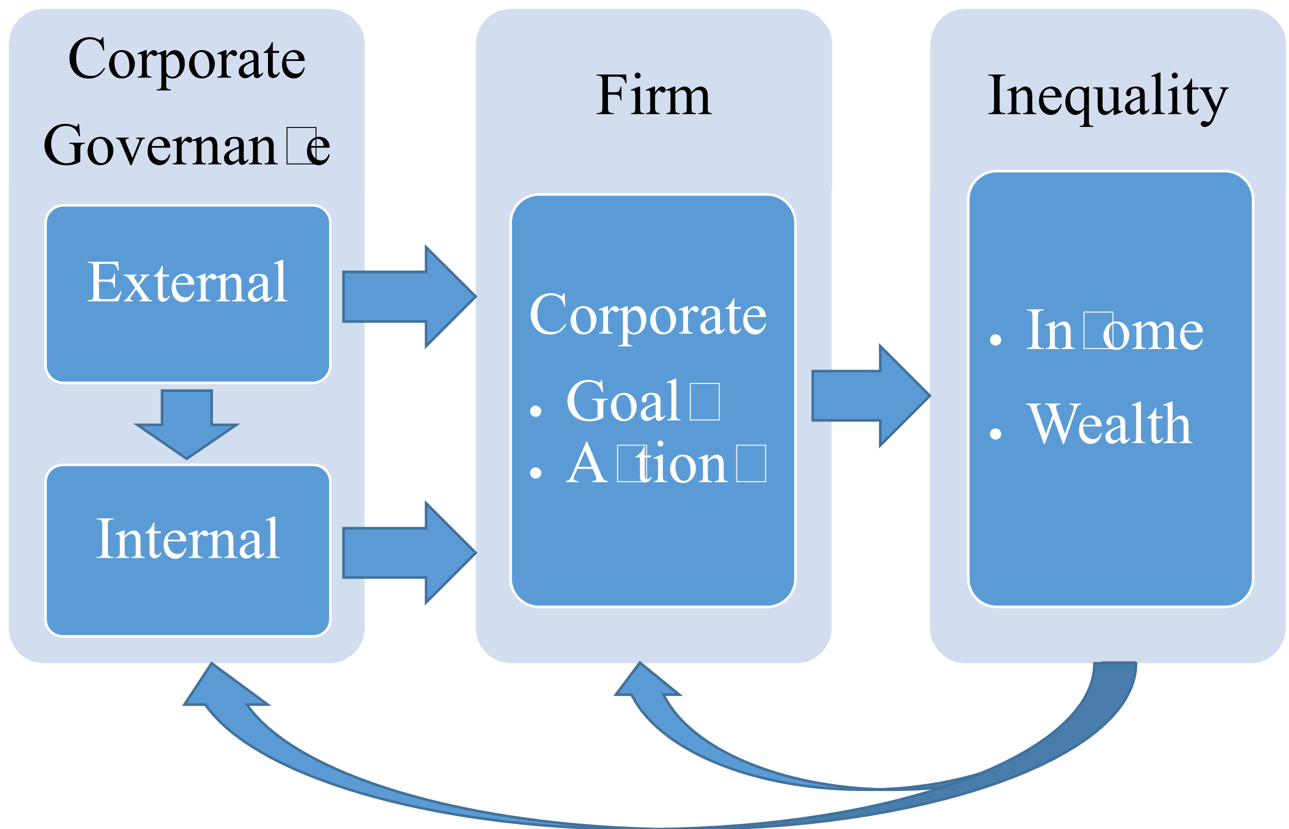

TABLE 1: SEARCH RESULTS

Keyword Search	SCOPUS	Expanded Search	Total relevant articles
Preliminary search:			
"inequality" and "corporate governance"	62		
Additional terms:			
Varieties of capitalism	15	14	39
Legal origin*	0	8	8
Financialisation	14	13	27
Platform capitalism*	0	19	19
Executive compensation	24	10	34
Board composition	6	17	23

* Not in preliminary search

TABLE 2. FIRM UNDER FINANCIALISATION AND PLATFORM CAPITALISM

	Financialisation	**Platform capitalism**
Firm objective	Maximise short term shareholder value	Maximise market share
Agency	CEO and top executives	Founder CEO and VC backers
Corporate governance	Traditional	Unorthodox
Top executive remuneration	Stock-based pay	Wealth (capital) gains on stockholdings
Dominant firm form	Public corporation	Big Tech firms and unicorns
Market structure	Oligopolies	Potential monopolies
Forces of concentration	Economies of scale	Direct and indirect network externalities
Peripheral activities	Outsourcing of activities	Gig workers
Regulation	Traditional anti-trust	New digital regulation required