
IMPACTS OF FINANCIALIZATION AND CORPORATE GOVERNANCE IN ELETROPAULO POST PRIVATIZATION

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Abstract

Aiming to point out changes in management mode and thinking of organization, according to its leaders, in a company that went through the privatization process, we present an exploratory study in AES Eletropaulo, an electrical company in São Paulo, which serves to address and characterize the reality associated with the financialization model widespread in contemporary global market. The analysis of AES Eletropaulo in relation to changing the culture and value of the referent period, post-privatization, is inspired current theoretical neo institutionalism and his studies on institutional change, deregulation and globalization.

Key words: *Privatization, culture, financialization, corporate governance*

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1. Introduction

The process of capital internationalization with the new financial management logic, called financialization and the new organizational form known as corporate governance are changes that has been affecting the enterprise space. These new forms of management and organization also affect its key actors and their forms of interrelationship.

Aiming to approach aspects of this process, this study discusses the changes occurred after the change of ownership in a state-owned enterprise, in this case, a company's the electric sector, AES Eletropaulo. Through which we seek to identify possible changes in ways of thinking and management of the organization, according to its leaders, in a company that went through the privatization process associated with the new model of financialization that has been widespread in the world market.

The analysis of AES Eletropaulo in relation to culture and value change in the period related, post-privatization, is inspired by current theoretical neo institutionalism and his studies on institutional change, deregulation and globalization. We considered that the transition of AES Eletropaulo from the hands of the government to the hands of the shareholders, the company underwent a series of transformations. Among them, we highlight the *embeddedness* of a new culture (GRANOVETTER, 2007) and increased shareholder value through corporate governance (FANTTI, 2011). At first moment it was the state acting, and the second moment after the privatization, the "new owners" would be shareholders with a focus in firms on what matters is profit.

For Granovetter (2007), the economic action does not work unconnected and nor outside of social system relations, on the contrary, this is *embedded* in a set of social relations, and the individuals are in contact with others and make choices taking into account the choices of other individuals.

Actors do not behave or make decisions as atoms outside a social context, nor adopt so servile a script written for them by the particular intersection of social categories that perhaps they occupy. Instead, his attempts to perform actions with purpose are *embedded* in concrete systems and ongoing of social relations (GRANOVETTER, 2007, p.09).

Most behavior is immersed in the network of relationships, and individuals seek not only economic goals, but sociability, approval, status and power (GRANOVETTER, 2007). Therefore, economic organizations are social constructs, not atomized elements of a market economy, and their trajectories pervaded and affected by social fabric.

We considered therefore that the changes made in the transition process from a state-owned enterprise to a private company, also resulted in a change process, in the case of the studied company, the AES Eletropaulo, which led to formation of a new culture characterized by a financialization and corporate governance, defining the dynamics of the relationship between shareholders and executives.

According to Fantti (2011), the rise of financialization brought consequences for the organization, to the extent that they deal with financial markets and demands of shareholders. It is present in organizations presentation of concepts in the generation of shareholder value and corporate governance. The search for the generation of shareholder value, financial logic, strategic financial gains higher than in production, short-term opportunity, speculation, liquidity, investment and change are characteristic of shareholder revolution, the organization is now based in models of value: decision organizational, design, liability, compensation and rewards, making the Chief Executive Officer - CEOs of financial area have higher profitability (FANTTI, 2011).

In a model of corporate governance, the board of directors of the company seeks to align the interests between shareholders and managers, so that shareholders are heard in the companies, having as pillars the transparency, fairness, accountability and social responsibility (FANTTI, 2011).

Novaes (2010) argues that as a model, governance appears at first as a philanthropic activity, related to activities nearby industries as a way of local philanthropy. In a second moment, as a marketing strategy, become a company with social responsibility is something that happens to be positive in the eyes of consumers. Currently governance became mandatory, turning a legitimizer of responsibility and ethics. Being social responsibility a pillar of corporate governance, corporate social responsibility is the result of institutional isomorphism, often led by expert consultants in this area: the globalization, the internationalization of the economy, the paradigm shift, the decrease in risk, uncertainty, where companies seek legitimacy in the market in which they operate.

2. Model company Eletropaulo before the period of privatization

In the mid-year "1979, the federal government passed the company Brascan the controlling interest then Light - Electricity Services SA. In 1981, the company command passed to the state government of São Paulo (...). Electricity de São Paulo SA "(AES ELETROPAULO, 2011) and from the mid-90s begins its privatization process.

The history of Eletropaulo began in 1981 and proceeded in the '80s and '90s, a period of several difficulties for the Brazilian economy, inflation and financial crisis. This scenario complicated the management of Eletropaulo, which developed some work programs beneficial to the public interest and welfare of the population. Social programs in order to make electric power more accessible to low-income and rural electrification programs.

In Eletropaulo we formerly had a state enterprise model with streamlined structure in the Fordism / Taylor's, turned to manufacturing. Does not exist a lack of electricity to consumers and the maintenance is preventative, the structure is vertical, focusing on production costs. According to Fligstein (1990), is a moment of managerial revolution, in those business managers takes place of the owners, in this framework, the industrial director was an engineer, and managers are professionalized.

The process of privatization of state enterprises in the electricity sector came under discussion in 1995, with the beginning of the first term (1995-1998) of the presidential administration of Fernando Henrique Cardoso, and the beginning of the Mario Covas

government in the state of São Paulo (BOA NOVA, 2002). The privatization program of the federal government started in the 90s led to the need for a rearrangement of the organizational body of state enterprises that were privatized. In general, the relationship between managers and owners would take new form, as well as the hierarchical chain within companies also would suffer profound changes, primarily through corporate governance and the way that became to be built the career of its leaders, varying in accordance with the logic of the moment, in this case a company financialized.

Boa Nova (2002) analyzes the changing culture of the period in which the company was the Light and became Eletropaulo. For Boa Nova (2002), *"analyzes the culture of organizations provide a better understanding of the productive sector of the state."* (BOA NOVA, 2002, p. 8).

Perceptions about Eletropaulo and its culture presented by Boa Nova (2002), show the influence of interference in internal management. *"(...), Eletropaulo would be driven by relentless pressure, in the interests of private services as well, although not always founded the allegation, that it would involve the public interest."* (BOA NOVA, 2002, p.84).

There were the frequent exchange of directors and president, interference of political-partisan factions', and other interests extra company. Regarding the unions, there was a *"symbiotic relationship between the company management and the union has evolved such that it was past the prerogative of making nominations to fill positions."* (BOA NOVA, 2002, p.91)

Boa Nova (2002) argues that in changing the Light for Eletropaulo, was the persistence of a culture of submission to those who had the command, that blind trust that was deposited before in the "Mother Light," was transferred to the Union and to the Board of Eletropaulo. The author points out that with the end of the culture of Light, there was a cultural discharacterization, because what happened was the end of that culture and not creation the establishment of a new culture in Eletropaulo.

Currently the owners are in the financial area, the company takes the form of holding, and from the 70s, the state started to have a role as deregulatory. What is done is money, joins

or selling part of the company, with the goal of improving the rate of return and profit. It would be an administration of a wallet with various assets, wherein each of them has different rates of return.

3. The company Eletropaulo period after privatization, the predominance of financial logic.

The process of privatization of Eletropaulo begins with the opening of its capital since 1993, and by mid-2003 the administration was decentralized, occurring in this period an elimination of corporate areas. Former HR director (2003 - 2007) reports that Eletropaulo was divided into business units, with the disappearance of some areas and then the need for further restructuring.

Through the form of corporate governance adopted in the post-privatization period, there was a restructuring at all levels of the company: shareholders, directors and employees of AES Eletropaulo were all affected by this new form of management and work organization. Shareholders are directed to a company more committed to financial logic, executive compensation depends on the performance of the firm, and motivation of employees is based on the company's profit sharing and bonuses, affecting this way, the culture of the entire organization.

The process of financialization is affirmed by the structure of the parent company, which in addition to AES Eletropaulo, holds interests in other companies, proving the financial logic (AES ELETROPAULO, 2011).

Regarding climate change after privatization of Eletropaulo, an issue that deserves attention is the remuneration of the executives (managers) of the company, not by the amount of money involved, but by how this remuneration is structured and paid.

Many studies on corporate governance suggests that there is a business environment that is called the Principal-Agent Problem, that is, modern corporations are not addressed by the shareholders (principal), but by managers (agents), effect caused by financialization. These two groups have conflicting interests: shareholders want to maximize your returns over

the long term, because they are owners of the company, on the other hand managers want to maximize your income in the short term, bonds and other forms of remuneration. Being the company's focus, when was a State-Owned Enterprise, was the search for efficiency in energy supply, and none of the officials, being public, could not receive higher salaries than the president of the republic. According to Donadone (2002), issues that fall in the debate on institutionalization theory of the firm and managerial revolution.

Useem cited by Donadone believes that:

With the growing influence of institutional investors is a change in the contents assigned to the managers of the various levels of the company. The format, which was based on the work of the manager in strict compliance tasks and considered a career as a series of positions to be occupied in the various hierarchical levels, begins to be questioned. A form of power resulting from the bureaucratic hierarchy begins to suffer serious damage. With the firing movement of a considerable portion of middle management and the need to think the company in economic terms, short-term, the scheme begins to collapse the distribution of power that was formed over the past decades of managerial revolution. (USEEM Apud DONADONE 2010, p.119).

Regarding the relationship between the adoption of differentiated levels of corporate governance and the impact on the market value of their shares, we observe that the pressure of the new owners has consequences in organizational design and composition of the power company, the pressure for a search of maximizing the value of the company (FLIGSTEIN, 1990; DONADONE, 2002; FANTTI, 2011).

Through analysis of curriculum the leaders of Eletropaulo, since its emergence as a state enterprise in 1979 to the current year of 2012, we observed that among the years 1983 to 1986 there was a market presence in a state-owned company, with strong influences policies. Already in 1998, post-privatization, the engineering profession is highlighted in this company, so the mode of production and supply of quality was prioritized as the focus of business from

this time, so that from 2012, those who pass occupy the position of leadership are formed in influential financial schools in Brazil.

The salary and benefits of the current executives and the difference in their remuneration and the difficulty of aligning these with the interests of the board is presented as a battlefield of economic interests. Then there is the destruction of social capital, changing the organizational environment, now turned to economic profit. Whereas in the company's relationship with its stakeholders, the logic is to enter the profitable market with high potential, which purchased a company of financial capital, having no commitment to it, only in income and profitability, besides being easy entrance by stocks.

According to Bourdieu (2007), a company as a field, its direction depends on the political fight of his agents, who try to identify their specific interests with the interests of the company, whose power is measured in the ability to identify the company's interests with your interests in the company.

Therefore, we point out that Eletropaulo underwent a restructuring management: the before was a culture in a state enterprise oriented to provide energy to the public, today, the strategy is focused on the macro, financial globalization, a private company that seeks the interest of its shareholders. Thus, among the possible changes undergone by Eletropaulo due to its privatization occurred to some extent, what we understand according to Granovetter (2007), as the possible *embeddedness* of a new culture. The process by which *embeddedness* has been going Eletropaulo has significantly altering its design and its organizational dynamics.

The case study of AES Eletropaulo, mainly through the analysis of the biographies of its leaders at different times of the company, suggests the importance and need for further research on the institutionalization of business, culture change and build careers in companies that are currently undergoing transformation processes through the financialization of the economy.

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