The Airlines Efficiency Myth

G. Mickhail
*University of Wollongong*, gmickhail@icloud.com

Brian Murphy
*University of Wollongong*, bmurphy@uow.edu.au

E. Farrell
*University of Wollongong*

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Abstract
One of the emerging issues with the internationalisation of accounting in enabling the globalisation of markets is its implicit role in privileging the destabilising social effect of globalisation, which risks alienating emerging economies and contributing to global instability. Accountants’ preoccupation with measuring the efficient allocation of resources when reporting the financial position, only privileges the inherent ideal of market efficiency as the principal imperative to a firm’s survival in a global market. This focus on free-market efficiency, with its disregard for social and public policy implications, is an unmistakable endorsement of a fundamentalist brand of value free, reckless capitalism that is ultimately detrimental not only to the long-term business interest, but human as well. It seems to me that international accounting should not only play a role in enabling a global free-market, but also safeguard society against the uninhabited pursuit of efficiency - especially when emerging economies are vulnerable to questionable social cost in their efficiency race to join the spoils of a global free-market. This is of concern when a global corporation’s failure, such as: Enron or WorldCom, caused ripples in the economy of an advanced industrialised nation, because a comparable failure in an emerging market may have irreversible societal injustices. Therefore, we would like to argue that there is a need to evaluate the uninhabited pursuit of efficiency to have an informed debate about its merit and effect on firm performance given its far reaching ramifications. This paper examines how efficiency has shaped the global airline industry, over the period from 1995 until 2005 to determine whether a correlation exists between the level of efficiency and airline performance. The findings highlight the imperative for international accounting standards to play a role in addressing the inherent deficiencies of such an obsession with efficiency because of its detrimental effect on the firm, the industry and society in the long term.

Keywords
airlines, efficiency, metacapitalism

Disciplines
Business | Social and Behavioral Sciences

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The Airlines Efficiency Myth

George MICKHAIL

ABSTRACT

One of the emerging issues with the internationalisation of accounting in enabling the globalisation of markets is its implicit role in privileging the destabilising social effect of globalisation, which risks alienating emerging economies and contributing to global instability. Accountants’ preoccupation with measuring the efficient allocation of resources when reporting the financial position, only privileges the inherent ideal of market efficiency as the principal imperative to a firm’s survival in a global market. This focus on free-market efficiency, with its disregard for social and public policy implications, is an unmistakable endorsement of a fundamentalist brand of value free, reckless capitalism that is ultimately detrimental not only to the long-term business interest, but human as well. It seems to me that international accounting should not only play a role in enabling a global free-market, but also safeguard society against the uninhabited pursuit of efficiency - especially when emerging economies are vulnerable to questionable social cost in their efficiency race to join the spoils of a global free-market. This is of concern when a global corporation’s failure, such as: Enron or WorldCom, caused ripples in the economy of an advanced industrialised nation, because a comparable failure in an emerging market may have irreversible societal injustices. Therefore, we would like to argue that there is a need to evaluate the uninhabited pursuit of efficiency to have an informed debate about its merit and effect on firm performance given its far reaching ramifications. This paper examines how efficiency has shaped the global airline industry, over the period from 1995 until 2005 to determine whether a correlation exists between the level of efficiency and airline performance. The findings highlight the imperative for international accounting standards to play a role in addressing the inherent deficiencies of such an obsession with efficiency because of its detrimental effect on the firm, the industry and society in the long term.

INTRODUCTION

The September 11th terrorist attacks on the World Trade Centre (WTC) buildings and the pentagon in the US had a noticeable effect on most organisations. The aviation industry seemed to be one of the most heavily affected industries: there was the initial government cancellation of flights immediately after the attack (for approximately a week) and a possible loss of confidence of the public in air travel. Short-term demand has dropped as a consequence. The response from the aviation industry after the attack was clear. According to CNN financial, airline layoffs had reached 97,800 people by the 28th September 2001, with the top six major carriers in the US all announcing staff cuts. Boeing Co., the biggest plane maker, announced ‘to cut 30,000 jobs by the end of 2002’ [Yahoo, September 26, 2001]. Despite being only a few weeks after the attack, the aviation industry had reacted with long-term structural adjustments.
It is difficult to understand why these reductions are so major and immediate across the entire board. Although public confidence in air travel may be at a current low, there aren’t other feasible alternatives. Air travel is a critical element to living in the 21st century, being accepted as a necessity as opposed to a luxury. The aviation companies aren’t being blamed for the attacks so we know the effect is external in nature. Given that there was going to be extreme increases in security and other awareness measures associated with air travel, the long-term prospects didn’t appear to be as drastic as first seemed. Petrol prices rose (especially in the short-term), but this is a price factor in a reasonably demand inelastic industry (especially if it is across the entire board). It is preposterous to think that long-term air demand is going to decrease because of the one terrorist attack. If that is so (which seems quite elementary), then why has there been a drastic change by the aviation leaders?

It is worth turning our attention to MetaCapitalism – a model whose individual ideas are undoubtedly being applied by most consulting leaders. MetaCapitalism (Means and Schneider, 2000) was coined by PricewaterhouseCoopers Global, and may be considered a generic form of contemporary corporate change strategies. Essentially, it espouses a radical transformation of existing corporate structures, characterized by the creation and maintenance of large bases of physical and human capital, to the MetaCapitalist firm – scarcely capitalised, brand focused, highly flexible, devoted to customer satisfaction, and driven by the internet and e-networks. These features rely on the creation of Value Added Communities (VAC’s), or in other words, on-line exchanges or networks, whereby the MetaCapitalist firms form networks and alliances with other companies that focus on key parts of the supply and demand chain. These VAC’s are supported and driven by the Internet and e-markets, which then leverages and diffuses the financial, human, intellectual, technological and brand capital in ways designed to drive new growth and add economic value and wealth.

At its core though, MetaCapitalism is not a novel concept – downsizing, decapitalisation and a quest for efficiency have been policies practiced by corporations for many years. The strategy does however develop its revolutionary character largely as a result of the innovatory effect of the Internet and e-market technology, the radical and fundamentalist nature of its recommendations, and utter disregard for any social or public policy implications. Additionally, perhaps no other strategy as this one is more confident (or arrogant) in its impending success. This is best demonstrated in the authors’ salvationary promises of ‘untold riches’ and wealth, such as “the period 2000-2002 will represent the single greatest change in worldwide economic and business conditions ever,” (Michaels, 2000) where global capital markets will increase from $20trillion to $200trillion in less than 10 years, while the Dow Jones will rise to 100,000 points (Means and Schneider, 2000). How can you go wrong then one has to ask? At first glance MetaCapitalism appears perfect, even flawless. Indeed the promise of financial salvation seems irresistible and seductive, and all but guaranteed.

Yet upon closer examination, these MetaCapitalist ideas simply minimize safety margins for operations to assist in ultra efficiency gains. Surely, the six leading aircraft carriers (AMR Corp, UAL Corp, Delta Airlines, Northwest Airlines Corp, Continental Airlines and Southwest Airlines) in the strongest economy in the world would have the financial strength to maintain their long-term structure given a short-term obstacle. Their stock performances before the crisis was contrasting – American Airlines and United Airlines were on an upward trend while Delta Air Lines and US Airways had experienced recent declines in their market values (60% decrease from December 2000 to June 2001). We would expect such spreads from a randomly chosen saturated industry. However, it is their common reaction to the terrorist attacks that drew our attention. Is it possible they were so tightly run that they had to deploy a long-term solution to a short-term problem? The question then that begs an answer, and is at the heart of this paper then is: have those airlines obsession with efficiency been responsible for this failure? And if so, what are some of the underlying reasons, and broader implications of such failure.

**METHODOLOGY AND EMPIRICAL ANALYSIS**

In attempting to answer this question, it became necessary first to provide an accurate determination of the extent to which each particular airline has MetaCapitalised, bearing in mind the need to reduce
MetaCapitalism into an index measurable in financial terms. Therefore, it was decided to measure an airline’s level of MetaCapitalisation by calculating its composite change value over time, based on the following formula:

**Net Working Capital/Total Assets (TA) + Plant Property and Equipment/TA + Number of Employees/TA**

This equation, and in particular the corresponding ratios, were taken to indicate the level of MetaCapitalisation, because they precisely represent the main tenets of the strategy – *decapitalisation* (ie: Net Working Capital or NWC), selling of physical assets (Plant Property and Equipment or PPE), and reduction in the number of employees through *downsizing* and *outsourcing* (Number of Employees or NOE). Total Assets was used as a common measuring base to provide a greater balance to the findings, allow for a measurable level of comparison and insight on the overall structure and level of total assets in comparison to the assets NWC and PPE. This, then, made it possible to compare the performance of the six US airlines to the rest of the top 100 airlines in terms of their implementation of the efficiency tenets of MetaCapitalism. The top six American airlines: AMR Corp, UAL Corp, Delta Airlines, Northwest Airlines Corp, Continental Airlines and Southwest Airlines, are all among the top 25 airlines. The evaluation was limited to the top 100 airlines according to their operating revenue, because they (most of which are publicly listed) are amongst the largest, most powerful and highest grossing airlines in the world. Airlines performance over a decade, from 1995 to 2005 were analysed in terms of the cumulative change effect of those MetaCapitalism indices during that period and the associated share price performance given its significance as the main market indicator of corporate success.

**MetaCapitalism**\(^2\) **Indices**

The following table provides a summary of the metacapitalism indices, as well as a number of other indicators to assess the comparative average performance of the top 100 and the top six US airlines for the period 1995 to 2005:

<table>
<thead>
<tr>
<th>Indices</th>
<th>Top 100 Airlines Average</th>
<th>Top Six American Airlines Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>NWC/TA + PP&amp;E/TA + NoE/TA Change</td>
<td>29.31%</td>
<td>-11.22%</td>
</tr>
<tr>
<td>NWC / TA Change</td>
<td>-6.64%</td>
<td>-5.88%</td>
</tr>
<tr>
<td>PP&amp;E / TA Change</td>
<td>-1.01%</td>
<td>2.13%</td>
</tr>
<tr>
<td>NoE / TA Change</td>
<td>34.33%</td>
<td>-7.46%</td>
</tr>
<tr>
<td>NoE Change</td>
<td>-1.24%</td>
<td>-2.01%</td>
</tr>
<tr>
<td>Net Sales Change</td>
<td>10.99%</td>
<td>3.48%</td>
</tr>
<tr>
<td>COGS Change</td>
<td>5.41%</td>
<td>5.78%</td>
</tr>
</tbody>
</table>

Table 1 – MetaCapitalism Average Indices Comparison Table

By comparison to the top 100 airlines over the last decade, the top six US airlines had been aggressive in their pursuit of efficiency with a cumulative\(^2\) -11.22% versus 29.31%, which is 2.6 times the top 100 cumulative efficiency change. The barely capitalised US airlines do not have the same

\(^2\) A positive change in a MetaCapitalism index, such as: NWC or PP&E or NoE - simply means a negative change figure.

\(^3\) Cumulative MetaCapitalism refers to the total of NWC/TA + PP&E/TA + NoE/TA
flexibility to decapitalise further which may explain why it is capitalising by 2.13% while the top 100 are
decapitalising by -1.01%. Notably, the top six US airlines are aggressive in their efficient allocation of
their human resource needs through a -7.46% reduction in their workforce as compared to a 34.33%
increase in recruitment by the top 100. This is particularly important given that the top six US airlines
have 35% of the total workforce in the top 100. It should also be noted that it is often human resources
which suffer in deregulated markets.

Share Price

The top six US airlines experienced a general decline in the period 97-98 then a relative rise in
share prices until approximately mid 2000. However these short-term gains were unsustainable, with
most firms experiencing subsequent declines and instability – even before September 11th, as can be seen
in graph 1 below.

Graph 1 – Six US Airlines Share Price Performance 1996 - 2004

US Airways and Southwest Airways experienced a massive 55% and 49% decline respectively in
its share price from the end of 2000 to the 10th of September 2001 just a day before the September 11th
tragedy. Meanwhile, AMR Corp (American Airlines), Delta and Continental experienced a 24%, 26% and
23% decline respectively in their share price for the same period. UAL Corp (United Airlines) is the only
one that experienced a mere decline of 0.66% in its share price.

Of course, the September 11th tragedy had forced the share price further down for all of those
airlines. US Airways was hard hit with a loss of 85% of its market value from the beginning of 2001 to
the end of 2001. The other five US Airlines lost an average of 45% of their share price value for the same
period. However, the average rate of decline for the top 100 airlines for the same period was 23.3%,
including other American airlines, such as America West Airlines.

The Efficiency Paradox

Means and Schneider (2000) claimed that MetaCapitalism promised a “tidal wave of economic
growth and prosperity.” It promised a Dow Jones of 100,000 within a decade. It promised to “produce
astonishing expansion and wealth” to accelerate value and wealth to unprecedented levels while
“unleashing undreamed-of possibilities and solutions to longstanding problems”. And all this is just in the
introductory chapter. Yet only 6 years since, the global economy is still stagnant, the Dow Jones is still 88,000 points away from reaching its target, while the most aggressive MetaCapitalist firms have experienced alarming decreases in share price and net income performance and a disproportionate rate of corporate failure and collapse.

The concept of efficiency is based on the economic notion of optimal resource allocation leading to maximised utility. In simple terms, ‘efficiency is about producing a greater output with less input’ (Korten, 1995, p240). It is viewed as desirable because it implies no wastage of resources, which translates to lower costs. This is especially enticing for companies because lower costs mean bigger profits, and prima facie this is not a bad thing. However, the danger arises when strategies like MetaCapitalism advise extreme and severe changes in the name of efficiency.

As our research suggests, severe reductions in assets can lead to serious consequences, including corporate collapse. Decisions to reduce assets made in the name of efficiency are actually driving companies to ruin and jeopardising their long-term survival. So why do they pursue it? The answer to this lies in the incentive that companies have to over emphasise the short-term. Firms pursue extreme changes because of the perceived benefits of doing so in the immediate future.

Changes such as the mass sale of PP&E may be seen to generate benefits in the way of cost savings. However, this is merely a short-term gain, as the loss of vital physical capital proves detrimental in the long-term. Though the market may reward these behaviours initially (through an increase in share price), research has shown that in the long-term this is reversed and the share price is later penalised (Mickhail, 2005). This is because the market is interested primarily in the short term, whereas companies should be more interested in their long-term success.

It is important that companies do not compromise long-term sustainability for short-term gains. However this becomes problematic where executive remuneration is tied to measures such as the share price or level of profit. Remuneration packages that are structured around reaching a particular share price or profit goal can give decision makers an incentive to be opportunistic and short sighted. Altman (2002, p3) argues that the use of rewards such as options in pay packages are oriented towards short-term rewards and thus leads to a short-term focus. Under these types of arrangements, the incentive for the manager is to engineer quick jumps in the stock price, make some money and then move on and do the same thing in a new job position (Altman, 2002, p3). Remuneration structures should be carefully considered to encourage a commitment to long term sustainability and avoid the perils of short-sightedness.

Firms also engage in extreme changes (advocated by strategies like MetaCapitalism) because they are advised to do so by consultants. Companies are highly susceptible to management fads (Klein, 2000, p224) and consultants sell themselves by promoting fears that the established structure won’t work, and that there more profitable ways of managing the business. They are almost seen as religious figures representing some form of secret truth for business. The fact that much of their advice is taken without critique or independent evaluation occurs because of the status that they have created for themselves. The promise of global successful salvation as portrayed by MetaCapitalism is very seductive to companies and on this basis they implement its directives (Mickhail and Pirello, 2004, p3).

**Why Efficiency Does Not Work?**

MetaCapitalism asserts that companies will become more efficient and more profitable when they utilise technology in the networked society and divest themselves of physical assets. The argument is that in the emerging new economy, corporate value is being increasingly tied up not in physical assets, but in intangible assets (Read *et al*, 2001, p7). The advent of the e-business revolution enables more tasks to be completed online, and the outsourcing of manufacturing to the VAC means that the brand owners need little physical capital themselves.

MetaCapitalism predicts that the share price will rise when the firm follows these directives and reduces its assets. However, our research suggests that this is not the case. Aggressively applying
MetaCapitalism and making significant reductions in physical (and human) assets leaves the firm exposed and has resulted in adverse consequences, the most serious of which is corporate failure, such as with US Airways which went into bankruptcy in 2002 and later merged with America West airlines.

![Graph 2 – Top Six US Airlines Cumulative MetaCapitalism Change and Performance](image)

The above graphs and their associated data tables highlight the correlation between share price and a number of metacapitalism indices, especially between the inverse share price changes to the changes in the metacapitalism composite index (NWC/TA+PP&E/TA+NoE/TA) – which is consistent with the propositions of the MetaCapitalism theory where the market rewards efficiency changes of capital cost reductions whenever they occur in the short term. However, the long term implications of such changes can be seen with the bankruptcies that ensued from operating on “shoe-string” resources despite being the largest and most powerful airlines in the industry. Exhibit 9 below shows the S&P airlines ratings for 2005, where most of the six US airlines received a B rating – which supports our view of the adverse long term effects of an aggressive pursuit of efficiency.

<table>
<thead>
<tr>
<th>Exhibit 9: S&amp;P Airline Ratings</th>
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<tbody>
<tr>
<td>AAA</td>
</tr>
<tr>
<td>AA</td>
</tr>
<tr>
<td>A</td>
</tr>
<tr>
<td>BBB</td>
</tr>
<tr>
<td>BB</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>CCC</td>
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<tr>
<td>D</td>
</tr>
<tr>
<td>SW</td>
</tr>
<tr>
<td>JB, ALK</td>
</tr>
<tr>
<td>NW, CO, AAI, AMR, AWA, DL, ACA</td>
</tr>
<tr>
<td>ATA, US</td>
</tr>
<tr>
<td>UAL</td>
</tr>
</tbody>
</table>

[Source: CNN financial network]

These results indicate that investors in the share market can see beyond the hype of such strategies and do not merely follow speculation. They are intelligent and look to invest in companies that have real value. The difference between following speculation and looking for value can be described as the difference between a technical and fundamental analysis of investment. Technical analysis is where the would-be investor looks to the record of the stock price (which can be influenced by hype and speculation) in making their decision (Malkiel, 1999, p129). Fundamental analysis is where the investor
looks for what stock is really worth by reviewing income statements, balance sheets and investment plans (Malkiel, 1999, p129).

McRobert (2001, p36) advises that a company’s financial statements ‘speak volumes’ and says that an investigation into the statements may enable corporate failure to be anticipated. He describes some key steps for investors to take in order to assess their potential investment including: checking for sustainable cash flows and earnings and enough funds in reserve to act as a safety buffer (McRobert, 2001, p37). Hoffman (2001, p44) also says that looking at the numbers is important in evaluating investment.

Fundamental analysis like this uses financial information to gain insights into ‘factors that may be operative in the future but are not yet reflected in market prices’ (Malkiel, 1999, p129). This is particularly pertinent to MetaCapitalism and instances of corporate collapse because the companies are significantly reducing their asset levels. The share market does not reward this behaviour in the long-term because astute investors interpret the danger of such action and respond accordingly.

Companies are penalised when the share market reacts unfavourably to the decision to reduce assets. As mentioned earlier, physical assets remain important to the firm. They support the firm and ensure that ‘there is an acceptable match between the earning capacity of an organisation and its ability to service its debts on an ongoing basis, from that earning capacity’ (McRobert et al, 1997, p84). Physical assets facilitate the processes that result in making a profit. A firm’s physical asset base represented by PP&E has been regarded as the most important long-term asset on a firm’s balance sheet (Palepu et al, 2000, p9-13).

Whilst the companies acted fairly consistently with their industries regarding trends, there were often large discrepancies in range between the changes that the company made and those of the industry. So even though the industry trend may have been to decrease assets, the company’s reduction was far more extreme. These extreme changes lead to the situation where the company becomes almost ‘intangible’. But companies cannot be intangible, and this is the flaw of MetaCapitalism. There must be some physical substance to them.

Although there are benefits and opportunities arising from the new technologies, it seems as though firms are throwing caution to the wind as they become caught up in the hype of the new economy. They have seriously underestimated the importance of physical assets and the way in which these assets support the firm. Trying to run a business without (or with very few) assets is like trying to run an engine without any fuel. You won’t get very far. There must be some investment before there can be a return. The lack of assets also leaves the firm exposed without any support for contingencies. This is particularly true in corporate failure. Whilst advances in technology will have implications for the corporate form, it is highly doubtful that the new form will be able to succeed with little or no physical assets.

Exploring the efficiency myth

Efficiency is bound in notions of economic rationality and utility maximisation: all the assumptions of the free market paradigm. ‘The doctrine of laissez faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest’ (Soros, 1998, p5). The argument is that if all individuals pursue their own self-interest the group as a whole will benefit because this will result in the most efficient allocation of resources. However, the most efficient allocation of resources does not necessarily mean the best outcome. It is the purpose of this section to critique the assumptions of efficiency and demonstrate how the unrelenting quest for efficiency can be damaging to society.

‘The idea behind the efficiency criterion is that the economic system exists to serve the wants and needs of the people in a society’ (Case and Fair, 1996, p303). The assumption is that the pursuit of efficiency will maximise utility. However, Rothbard (1979, p267) says that the problem with utilitarianism is that it holds that everyone’s ends are really the same. ‘It is the myth of the common universal end that allows economists to believe that they can scientifically and in a supposedly value-free
manner prescribe what political policies should be adopted’ (Rothbard, 1979, p267). Because of the conflicting interests of different groups in society, it is impossible to have one single measure of their combined ends. Thus the pursuit of a particular action may not result in benefits for the whole group, just the few whose interests are served by the action.

Wolff (2002, p1) criticises efficiency for using a simplistic view of the world; by presuming that an analysis of an economic event considers all of the effects of that event and the positivity/negativity of each effect. Wolff (2002, p1) says that the notion of efficiency is absurd because there is no way to measure all of these consequences and therefore no efficiency measure has comprehensive or absolute validity. Further, the determination of what effects are/are not important and whether they are good or bad depends on the perspective of the decision maker. Decisions made on the basis of efficiency involve value judgments. In order to critique a decision made in the name of efficiency it is necessary to consider the values of the decision maker.

In this case, companies are the decision makers and their values are reflected in the types of decisions that they make. In the film ‘The Corporation’ (Achbar et al., 2004, chapters 17-24), an analysis of the personality of the corporate form is conducted to determine what values companies hold. The authors conclude that companies value profit above all else, and in the unrelenting pursuit of profit, their actions resemble that of a psychopath. A checklist for psychopathy is cleverly used to demonstrate the similarities with the fundamental profit seeking behaviour of firms. Efficiency can be considered a proxy for profit seeking because increases in efficiency lead to increases in profit.

The authors argue that companies are so driven to make profits, that they do not consider the effects of their actions on anyone else (Achbar et al., 2004). This total disregard for others is one of the traits of a psychopath and a clever and insightful comparison is made between the personality of a company and that of a psychopath. The checklist includes the following:

- Callous unconcern for others
- Inability to maintain enduring relations
- Reckless disregard for the safety of others
- Deceitfulness and lying to others for profit
- Incapacity to experience guilt
- Failure to conform to social norms with respect to lawful behaviour

Through a series of case studies involving various companies’ roles in human rights abuses, environmental degradation, corporate fraud and the sale of dangerous products, the case is made that the corporation is in fact a psychopathic profit-seeking machine that will stop at nothing to achieve its goal. There is no sense of moral obligation and no consideration of how the effects of the decision will affect anything else but the bottom line. All other effects are conveniently ‘externalised’ by the company and not really considered by them to be their problem.

Externalities are defined as the effects of transactions on a third party who has not consented to or played any role in the carrying out of the transaction (Bakan, 2004, p61). ‘The bad things that happen to people and the environment as a result of corporations relentless and legally compelled pursuit of self-interest are thus neatly categorised by economists as externalities –literally, other peoples problems’ (Bakan, 2004, p61). Externalities are a convenient means of avoiding responsibility and accountability for the costs of efficiency. By refusing ownership of the negative consequences of their decisions, companies can make economically rational decisions that can be damaging to society as a whole.
Bakan (2004, p61) describes a case example of this, involving Fortune 100 firm General Motors. In 1993, a woman named Patricia Anderson took General Motors to court after she and her children suffered serious burns in a car accident. She had stopped at some traffic lights when another car crashed into the back of her causing her car to blow up in flames. Anderson and her four children were badly burned and suffered serious injuries. She claimed that General Motors had failed to protect the fuel tank in her car from collision by placing it in a hazardous position, close to the rear bumper of the car.

The jury found that General Motors had dangerously positioned the fuel tank to save costs, despite the knowledge that it would increase the likelihood of explosion in the event of a crash. Evidence shown during the trial proved that the company was aware of the dangers but did not change the position of the fuel tank. The company had actually prepared a report to determine the estimated cost of potential legal damages in the case of fatalities from fuel-fed fires. This cost was less than what it would’ve cost to reposition the fuel tank and so they made the economically rational decision to leave it where it was and risk the lives of the consumers (Bakan, 2004, p63).

This is a clear example of how the pursuit of efficiency (and profit) can have dangerous and damaging effects for society. The consequences of prioritising profit over the value of human life lead to morally reprehensible actions. Yet these are condoned under the current capitalist system. Companies make decisions like these within the realm of laissez faire capitalism, which implicitly supports these actions by applauding profit and encouraging the externalising of costs. We would like to continue this discussion by considering some of the deficiencies of the capitalist system and the broader social implications of pursuing efficiency.

The Capitalist System and its Social Implications

Laissez faire capitalism requires the pursuit of self-interest of all market participants with a minimal role for the state. The belief is that when self interest is pursued, the most efficient allocation of resources is achieved for the benefit of the common good. However, this does not seem to be true in reality. Bakan (2004) argues that the pursuit of self-interest does not benefit the common good, just the rich and the powerful. The only certain beneficiaries of efficiency are the owners of capital (Korten, 1995, p242). The discussion that follows briefly critiques some of the deficiencies of the capitalist system and explores why the ‘untramelled intensification of laissez faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society’ (Soros, 1997, p1).

The most serious deficiency of capitalism is the way in which it subjuga tes the value of human beings as the interests of money take precedence over the interests of people (Korten, 1995, p247). What we are experiencing might best be described as ‘a case of money colonising life’ (Korten, 1995, p247). As discussed earlier, the assumption of efficiency leading to the best utility is somewhat of a myth. The great good depends on what consequences are considered to be good or bad and the importance that is attached to them by the decision maker (Rothbard, 1979). The main beneficiaries of efficiency are the owners of capital: the rich and powerful in society. And there are certainly many casualties.

Consider the effects of downsizing and outsourcing offshore. Downsizing results in increased local unemployment, which has repercussions such as social dislocation, increased crime rates and poverty (Moore, 2002). These effects threaten stability and can devastate entire communities. The social costs are very high where the pursuit of efficiency maximisation is completely disconnected from human well being (Gray, 2002, p234). Outsourcing can also have major effects for humans especially where ‘sweat shop’ labour is employed. Outsourcing to developing nations can perpetuate the ‘modern day slave trade’ where people are forced to work under exploitative conditions. Protection of workers rights is not something that is prioritised and certainly not guaranteed. Human rights abuses are rampant. These results are the costs the unfettered pursuit of efficiency.

Some would argue that sweat shop workers are better off having a bad job than no job at all and that companies boost the local economies of countries that have little to offer except cheap labour. However, we do not agree with this. The companies that engage this type of labour are often extremely
profitable and can more than afford to pay for decent wages for their workers. Nike is a notorious example of this. Further, often companies will only employ labour in a particular place until it becomes more profitable to move somewhere else. When a more lucrative opportunity presents itself, they withdraw from the original community to take advantage of the cheaper labour elsewhere.

By doing this, the company ensures the most efficient allocation of resources. However, this sudden departure of economic support leaves devastation in its wake, and inevitably leaves the people of these communities in a worse position than when they started working. The profits of the shareholders are deemed more important than the lives and human rights of these workers. They are seen merely as commodities or resources to be used up in order to achieve efficiency. This is the ugliness of economic rationality.

The harmful social effects of these decisions are almost always unreported and companies are not held accountable for them because they are deemed to fall outside of the economic realm. Practices that have results such as these are not compatible with social justice. Yet they follow the dictates of the market.

This is why market values are not an appropriate means on which to organise society and public policy. ‘Markets are made to serve man, not man the market. In the global free market the instruments of economic life have become dangerously emancipated from social control and political governance’ (Gray, 2002, p234). The threats to human well being and human existence are great when profit, is privileged over them.

The problem with the market is that it assumes that everything can be quantified and that everything has a value, just like a commodity. People are not commodities and social unrest results when they are treated as if they are. Saul (2005, p103) says that the globalist era has damaged large sections of the world, and warns that ‘social unrest elsewhere will be dangerous to Western societies as well as those in which it originates’. The terror threat that now sweeps the world is arguably the result of this social unrest and dislocation.

Garten (2002, p4) says that a market economy is not the same as a market society and prices and competition should not govern everything. ‘We need to adopt a long-term approach that will expand open markets and promote democracy’ (Garten, 2002, p4). Democracy refers to the system of government where each citizen is equal and elected representatives act on their behalf. Gray (2002, p8) says that the unfettered market is ‘incompatible with democratic government. This is because the market privileges capital and those who own capital, which results in inequalities. An economy following laissez faire ideals can become undemocratic where the market determines everything and the citizens have little say in what happens. The winners are the wealthy and the most powerful.

Gray (2002, p10) uses the example of the British Poor Law Reforms in 1834, which set the level of subsistence lower than the lowest wage set by the market. The central idea was to ‘transfer responsibility for protection against insecurity and misfortune from communities and individuals and to compel people to accept work at whatever rate the market set’ (Gray, 2002, p10). The Government is supposed to protect its citizens from insecurity however, ‘a regime of global laissez-faire that prevents governments from discharging this protective role is creating the conditions for still greater political, and economic stability’ (Gray, 2002, p21).

Rothbard (1979, p272) says that ‘only ethical principles can serve as criteria for our decisions. Efficiency can never serve as the basis for ethics; on the contrary, ethics must be the guide and touchstone for any consideration of efficiency’. Not only is the extreme pursuit of efficiency incompatible with a company’s long-term survival, it is also incompatible with social justice. Every society needs some shared values to hold it together and the market alone cannot provide this (Soros, 1998, p5).

Instead, Soros (1998, p5) presents his idea of the ‘Open Society’, which is described as ‘the greatest degree of freedom compatible with social justice’. It is characterised by the rule of law, respect
for human rights, minorities and minority opinions, the division of power and the market economy. It is about respecting and embracing different cultures and traditions and recognising our own fallibility (Soros, 1998, p6). We believe that a concept like the Open Society would help to address the deficiencies of the current system and promote broader corporate social responsibility.

Returning now to the decisions made by companies within the laissez faire paradigm, Garten (2002, p4) argues for ‘a revitalised notion of global corporate citizenship’. He says that it is important that companies are held accountable for their role in creating social effects and consequences. The imperative is how to give corporate citizenship more attention and a higher priority. One way to do this is to include social and environmental reporting and for social audits to be conducted (Garten, 2002, p4). This leads to a discussion of the role of accounting in perpetuating the pursuit of efficiency and the status quo.

CONCLUSIONS

This critique of the efficiency imperative also considers its place within the capitalist economic system. Whilst we believe that the capitalist system is probably the best of all the alternatives, it has some serious deficiencies that need to be addressed. Opportunistic profit seeking is applauded no matter what the cost and this can be used to justify or ignore devastating social conditions such as human rights abuses and social dislocation. Accounting has a role in perpetuating this by only measuring the fruits of efficiency, such as profit, and not its costs. The role of the accounting craft in perpetuating the status quo is also discussed. By considering this problem through a critical lens, we argue the need for a fundamental shift in emphasis in order to encourage increased corporate social responsibility for the betterment of society as a whole.

The “spates of corporate failure and distress have been recurrent events since the creation of the modern corporation over 150 years ago,” (Adams et al., 2001) and that every firm is essentially faced with the same challenges, such as a poor economy, the war on terror, anti-globalisation, and so on, but not all have failed. The fact that such a vast majority of firms suffering this fate were those most aggressive in their efficiency pursuit, suggests that perhaps efficiency is indeed responsible. When one considers this in light of these airlines’ alarming decline in share performance, especially compared to that of non-MetaCapitalist airlines, or those who were not as aggressive in their MetaCapitalisation, this would then indeed indicate a significant correlation between high levels of MetaCapitalisation and corporate collapse or failure.

Although the MetaCapitalist argument has some merit, such as the revolutionary impact of B2B and network technologies, and the need to be more flexible and respond faster to rapidly changing market conditions, the strategy poses significant social and political concerns if adapted literally to its extreme. Indeed it was in fact the book’s complete and utter disregard for the strategy’s social and public policy implications that was the catalyst for this paper.

The aviation industry hasn’t been questioned over their common solution of job cutting. It was expected that the terrorist attacks would have unavoidable economic implications. If a firm had planned future job reductions, it would be economically sensible to implement the cuts as a response to the attack (provided there was an obvious connection). The aviation industry experienced massive market drops immediately following the terrorist attack – some firms experiencing more than 50% decline in their share price. Under such circumstances, reporting layoffs can almost be viewed as positive news - it reflects a dynamic and proactive industry. Is it possible that such layoffs may have been pre-planned, with the terrorist attack presenting an unrepeatable opportunity for them to be positively implemented? This seems like a more realistic scenario than mass structural adjustments for short-term demand problems.

We should also note the future effects of outsourcing (associated with job cuts) on the aviation industry. When firms outsource they seek the lowest bidder, to minimize their own costs for a particular task. Therefore, the bidding firms must find cost reductions (or efficiency gains) internally. In many instances, this cost cutting coincides with quality cutting, reducing the final service or product provided to the partnering firm. Hence, instead of achieving gains through increased specialization, the reciprocal may
actually occur. In fact, security is one area, in which domestic airports are known to contract-out, which may help explain how the whole terrorist attack wasn’t avoided⁴.

MetaCapitalism is effectively a fundamentalist form of capitalism. One commentator has even described it as “capitalism on steroids” (Michaels, 2000). In essence one of the overriding aims of this paper was to convey the numerous deficiencies of the capitalist system; one that has been described as “a searing indictment of an unjust international order” (Soros, 1998). These deficiencies, include amongst many other shortcomings, the unequal distribution of benefits and information, widening gap in inequality, insipient threat of the creation of monopolies and oligopolies, a nature of ‘elitism’, an unhealthy and dangerous obsession with efficiency and deficiencies with the market’s self-correcting mechanism to produce outcomes efficient to broad array of groups because of its vested interest in maintaining the status quo as a means of preserving its power and wealth.

Yet one comes to the sobering and disturbing realisation that these deficiencies are not only completely neglected by the authors, but are exacerbated by MetaCapitalism, because at its very core, the model espouses a form of unfettered fundamentalist laissez-faire capitalism characterized by an unrelenting quest for efficiency, minimalist role of the State and the intensification of greed. Ultimately, it aims to revolutionize not just the economic and corporate environment, but our social one too, by imposing the spread of market values into all areas of life. And that is our foremost concern – that it undermines and challenges the very values upon which our society and democracy depends.

The brand of capitalism we advocate is a ‘socially responsible’ one, where it is imperative to recognise and address the system’s deficiencies, for that is ultimately the only way upon which the capitalist system can be sustained and the long-term interest of human beings, and society as a whole be secured. To conclude with the wisdom and insight of George Soros, the type of capitalism then to be advocated is one which: “provides the greatest degree of freedom compatible with social justice...characterized by the rule of law; respect for human rights, minorities, division of power; and a market economy.”

REFERENCES

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⁴ Please note that this last paragraph isn’t an attempt to analyse the terrorist attack, rather to show the possible repercussions associated with MetaCapitalism and outsourcing. Our views were driven by a CNN report on airline security in Nov 2001: http://www.cnn.com/SPECIALS/2001/trade.center/flight.risk/stories/part1.mainbar.html
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