Critical Corporate Social Responsibility, and

International Corporate Governance

Session 3: International Corporate Governance

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Activity: Veil of ignorance

A brief over view of Capitalism (possibly)

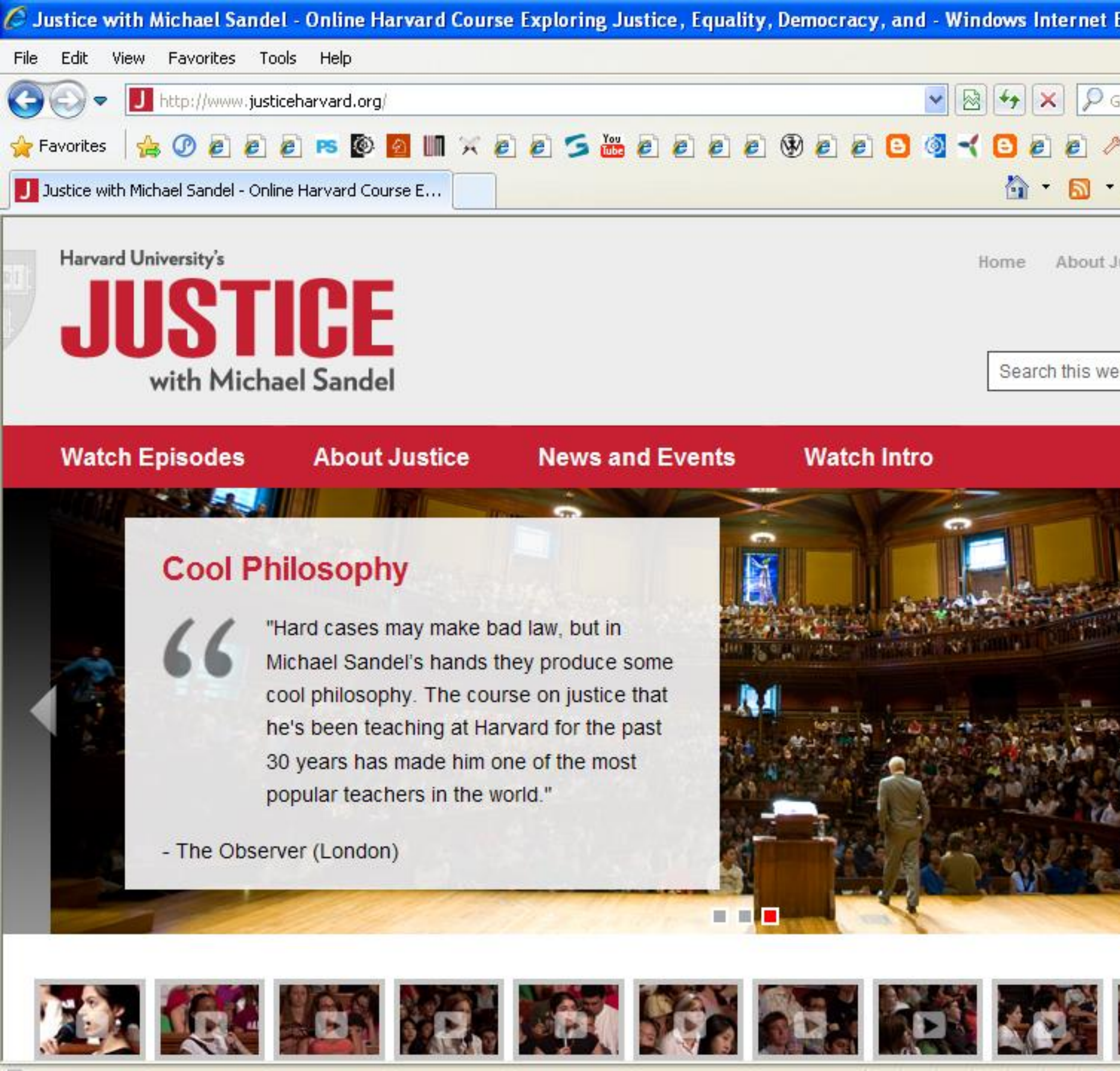
Stakeholder Capitalism
Activity: a first view of Amer 2014 and stakeholder contributions

Basic Corporate Governance
Activity: a second view of Amer 2014 and Directors

Technical Corporate Governance
Key sources of information

Activity: Finnish Corporate Governance Code 2010
Activity: UK Corporate Governance Code 2014

Corporate Governance theories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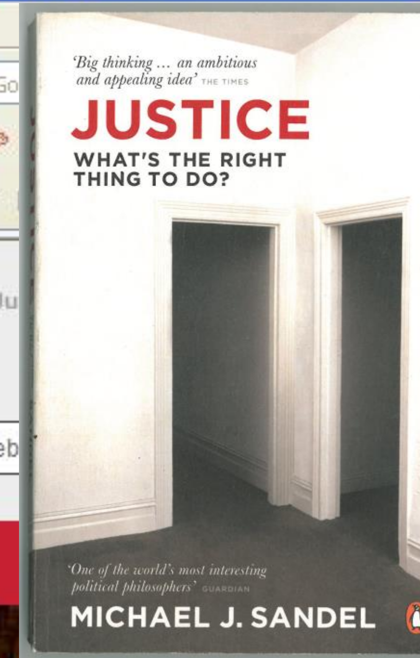
Cool Philosophy
"Hard cases may make bad law, but in Michael Sandel's hands they produce some cool philosophy. The course on justice that he's been teaching at Harvard for the past 30 years has made him one of the most popular teachers in the world."
- The Observer (London)

'Big thinking ... an ambitious and appealing idea' THE TIMES
JUSTICE
WHAT'S THE RIGHT THING TO DO?
'One of the world's most interesting political philosophers' GUARDIAN
MICHAEL J. SANDEL

John Rawls: veil of ignorance

A brief overview of capitalism

Capitalism started in the US: as a very clever way of getting around man's inclination towards his own "self-interest"

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.

We address ourselves, not to [other people's] humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.

.... it is by treaty, by barter, and by purchase, that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is this same trucking disposition which originally gives occasion to the division of labour."

Adam Smith: The Wealth of the Nations, page 19

http://www2.hn.psu.edu/faculty/jmanis/adam-smith/wealth-nations.pdf

Free markets and 'liberal' economies

A purely liberal economy [has] a minimal state that simply enforces contracts, protects private property from theft and possibly has an army and a police force. It [has] minimal taxation.

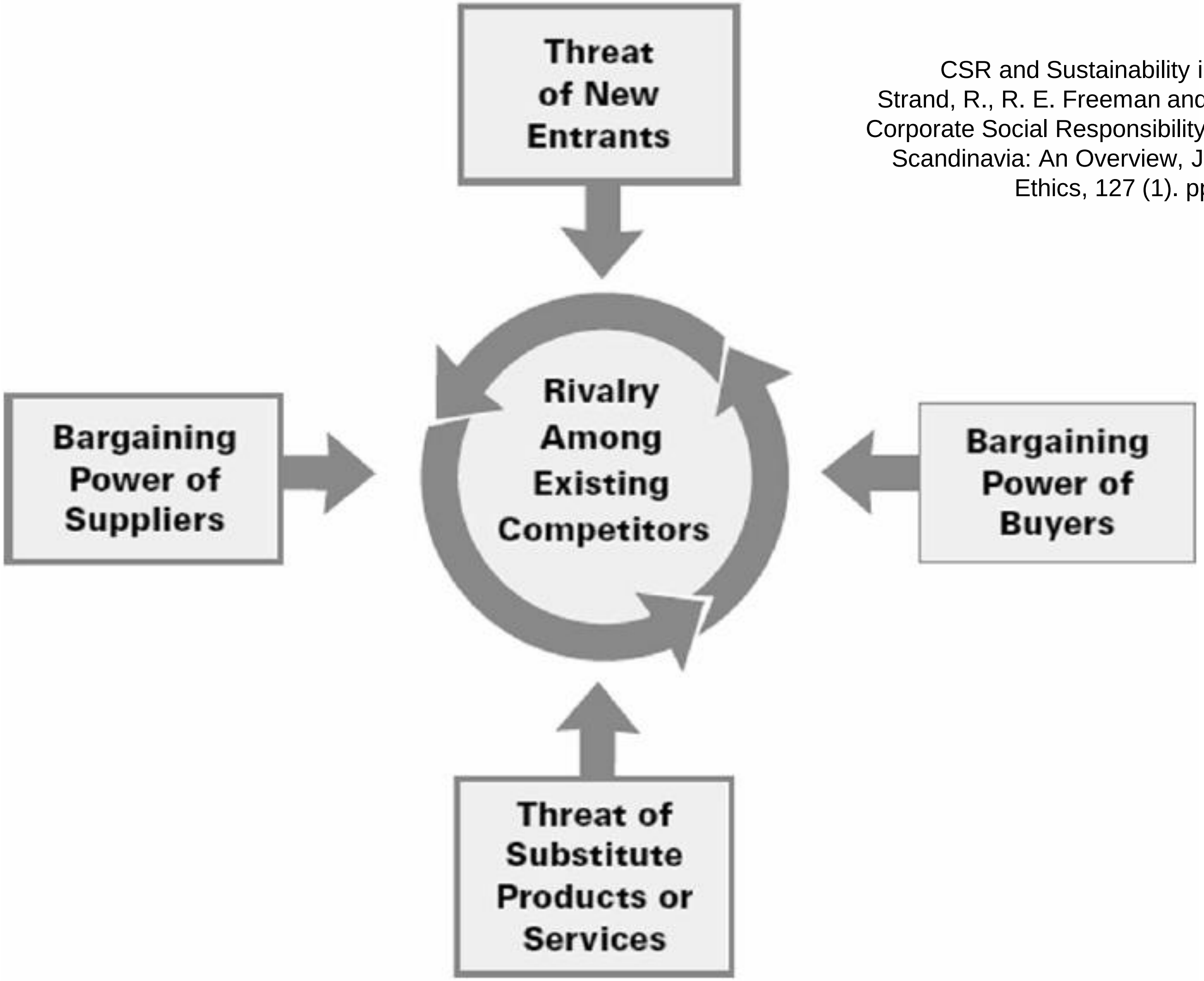
Michael J. Sandel (2009) Justice: What's the right thing to do? page 60

and in the words of Milton Friedman (1962) Capitalism and Freedom.

Shareholder wealth maximisation is the only goal of business - so long as no laws are breached.

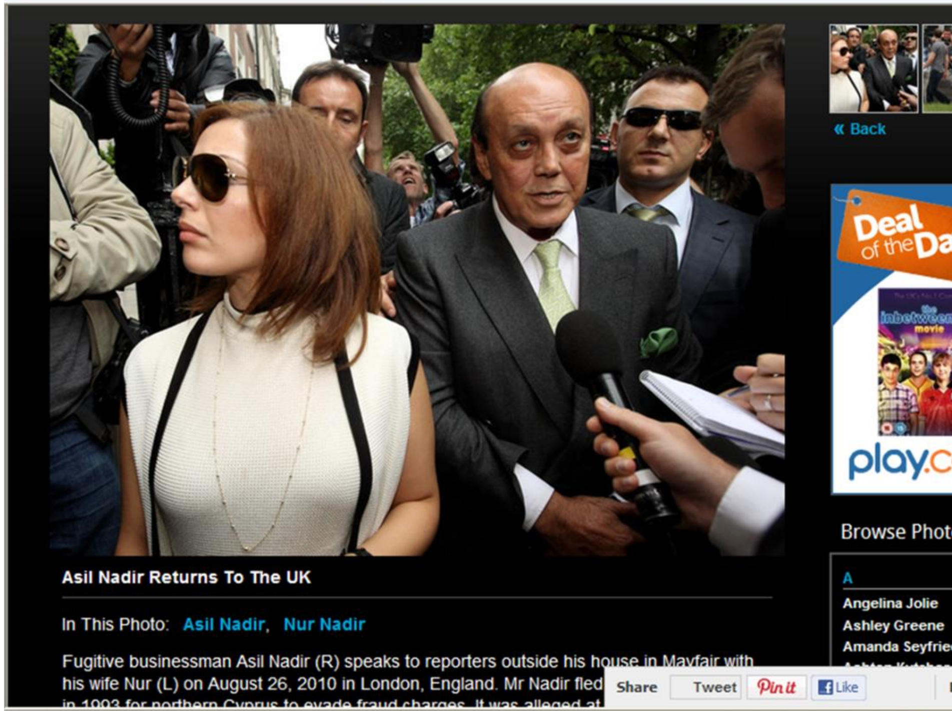
(assume that in 1960 there were no draconian Health and Safety regulations).

The Five Forces That Shape Industry Competition



CSR and Sustainability in Scandinavia
Strand, R., R. E. Freeman and K. Hockerts (2015) Corporate Social Responsibility and Sustainability in Scandinavia: An Overview, Journal of Business Ethics, 127 (1). pp. 1-15.

Fig. 4 Porter's 5 forces. Reprinted with permission from "The Five Competitive Forces That Shape Strategy," by Porter (2008), *Harvard Business Review*.


Asil Nadir and Nur Nadir Photos - Asil Nadir Returns To...

« Back

Asil Nadir Returns To The UK

In This Photo: Asil Nadir, Nur Nadir

Fugitive businessman Asil Nadir (R) speaks to reporters outside his house in Mayfair with his wife Nur (L) on August 26, 2010 in London, England. Mr Nadir fled

Browse Photo

A
Angelina Jolie
Ashley Greene
Amanda Seyfried


Pension plunderer Robert Maxwell remembered 20 ye...

Previous Blog home Next

Pension plunderer Robert Maxwell remembered 20 years after his death

Robert Maxwell. Photograph: PA

As soon as I entered the office of the Today newspaper on the afternoon of Tuesday 5 November 1991 I knew something had happened.

There was that unmistakeable newsroom hubbub that occurs only when a big story has just broken.

I had no time to ask what it was about because several journalists were

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Posted by
Roy Greenslade
Thursday 3 November 2011 12.14 GMT
guardian.co.uk
Comments (3)

Article history

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Sir Adrian Cadbury

Latest

As Capitalism has developed the response to the "ugly side of capitalism" has been two fold.....

(i) Governments around the world have (and continue to) create new laws and regulations in an attempt to prevent "poor corporate behaviour"

(ii) Society has "re-negotiated" its social contract with big business

An example of a "re-negotiated social contract" is the idea that stakeholder capitalism is "good".

R. Edward Freeman (2007) Stakeholder Capitalism, Journal of Business Ethics, 74, pp. 303-314.

He would argue for a Stakeholder Capitalism - that suggests that the **long term** shareholder best interests - will take into account all the stakeholders of the business.

Critically: Freeman could be caricatured as arguing that in today's society the only way to maximise long term shareholder wealth is to treat all stakeholders in an "ethical" manner.

He also argues that most forms of capitalism see "business" as amoral (not to do with morals) or solely about "business ethics" not about wider notions of the greater good.

Stakeholder capitalism

Suppose a business makes pipes. They pay their suppliers on time and deliver well made, reliable pipes to their customers at a fair price. Their employees are paid a market wage and have access to a pension plan partially supported by the business. They abide by all the known laws and regulations of the countries they operate in and the employees of the business are known as honest, straight talking and hardworking.

The business does not sell any of its pipes to known terrorists. It makes a profit each year, most of which is returned to shareholders by a way of dividends.

The business does not sell pipes to the developing world because the profit margins on such deals are low and would divert resources away from the lucrative western market.

(Adapted from Edward Freeman: **see http://www.corporate-ethics.org/**)

Edward Freeman would argue that this was a "morally good business".

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CORPORATE CITIZENSHIP
A NECESSARY INVESTMENT FOR SUCCESS

For the first time in more than a decade, executives predict that investment will increase in the next three years on every dimension of corporate citizenship.

THE MAJORITY OF BUSINESS EXECUTIVES BELIEVE CORPORATE CITIZENSHIP:

- contributes to company success
- returns value to shareholders
- merits additional investment

...AND REPORT THAT CORPORATE CITIZENSHIP ACTIVITIES CONTRIBUTE TO COMPANY SUCCESS.

HOW DOES THIS HAPPEN?

We need a more sophisticated form of capitalism, one imbued with social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next evolution in the capitalist model recognizes new and better ways to develop products, serve markets, and build productive enterprises.

page 77 of

Porter, M. E., and Kramer, M. R. (2011) **Creating shared value**, Harvard Business Review, 89(1), pp. 62-77.

Stakeholder capitalism

National Law

Local Regulations: and regulatory bodies

Local "capitalism"

Globaliziation and "capitalism"

Shareholders

Directors

Listed company

Employee families and communities

Employees

Suppliers

Members of the supply chain, and communities impacted by the supply chain

Customers

Those impacted by the products and services

Media

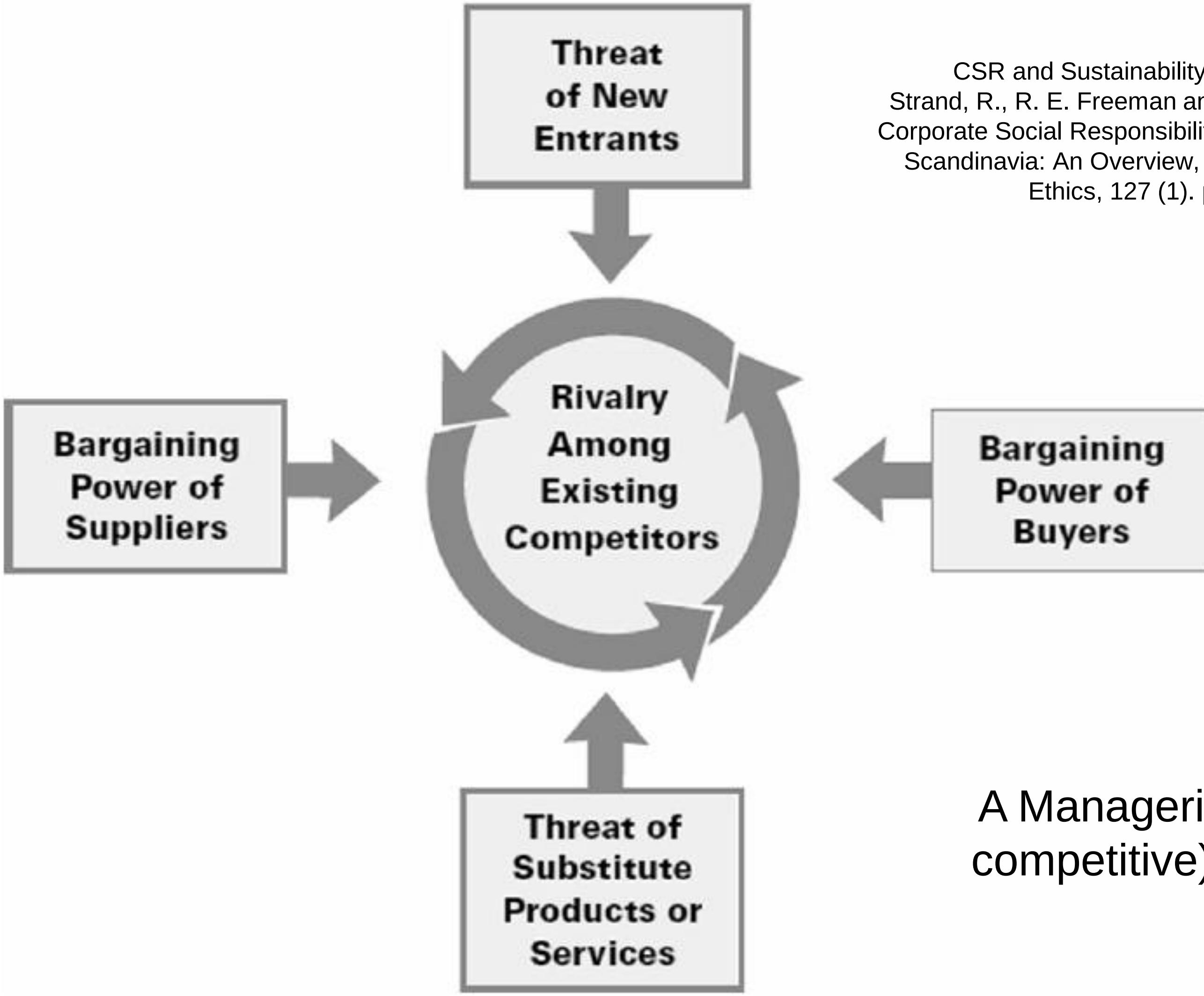
Public Opinion

A Socio Political view of CSR - based upon
Aguilera, R. V., Williams, C. A., Conley, J. M., & Rupp, D. E. (2006). Corporate Governance and Social Responsibility: a comparative analysis of the UK and the US*. *Corporate Governance: An International Review*, *14*(3), 147-158.

The "economy"

The "markets" eg. capital, product, labour

The Five Forces That Shape Industry Competition



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A Managerial (or competitive) view

Fig. 4 Porter's 5 forces. Reprinted with permission from "The Five Competitive Forces That Shape Strategy," by Porter (2008), *Harvard Business Review*. Copyright © 2008 by Harvard Business Publishing; all rights reserved

Strand, R. (2015) Scandinavian Stakeholder Thinking: Seminal Offerings from the Late Juha Näsi, *Journal of Business Ethics*, 127 (1), pp. 89-105

In the long run the company must operate in such a way that each stakeholder is ***satisfied*** *with what he or she or they as a group gives/give and with what he or she or they gets/get.*

The more ***dissatisfied*** *the main stakeholders are, the more certain it is that the company's activities will cease.* (Page 91)

Ethical idea: ultimate end

First of all it is a ***social theory*** of the firm, where economic elements are included, but only as parts of a larger human entirety.

Secondly, it is an ***action theory*** of the firm, where intentional actors with varying motives interact.

Action as a concept is more comprehensive than behaviour and underscores ***human intentions, motives and goals*** as important directing forces for acts

page 93 of Strand (2015)

Scandinavians preferred to talk about the **contributions** made by the stakeholders to the company and about the rewards which the stakeholders demand from it.

(Strand, 2015, page 91)

Contributions

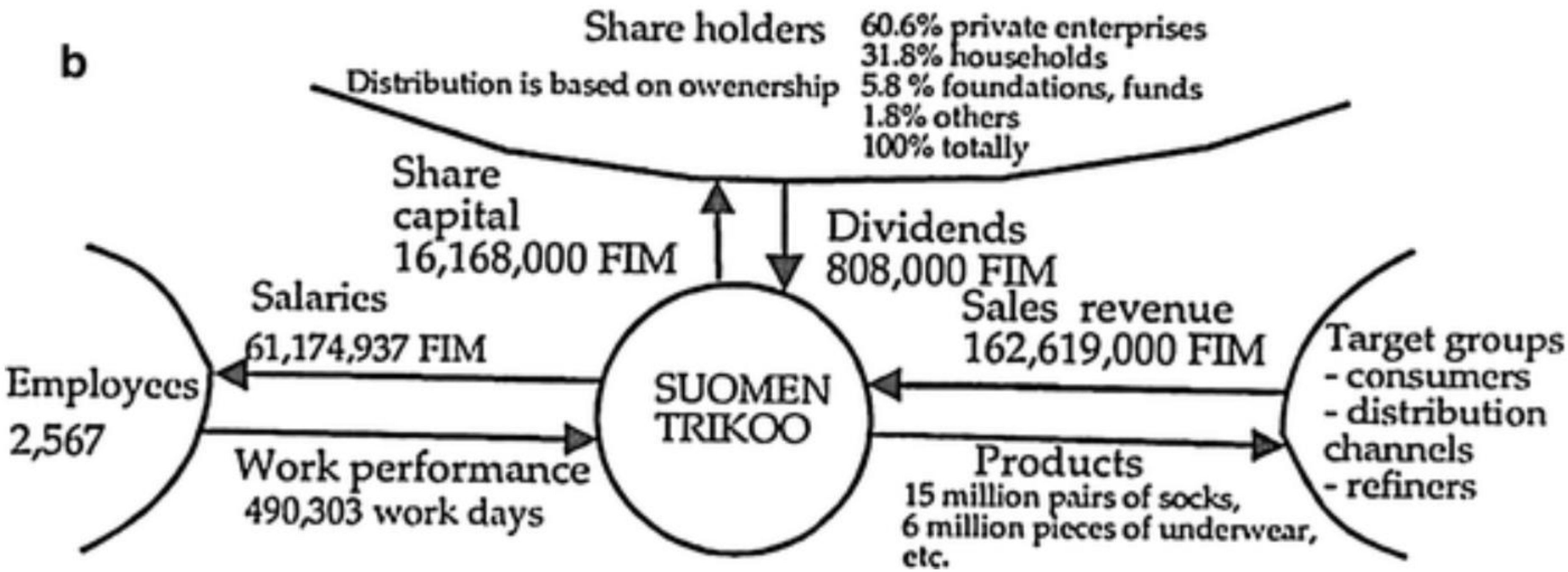


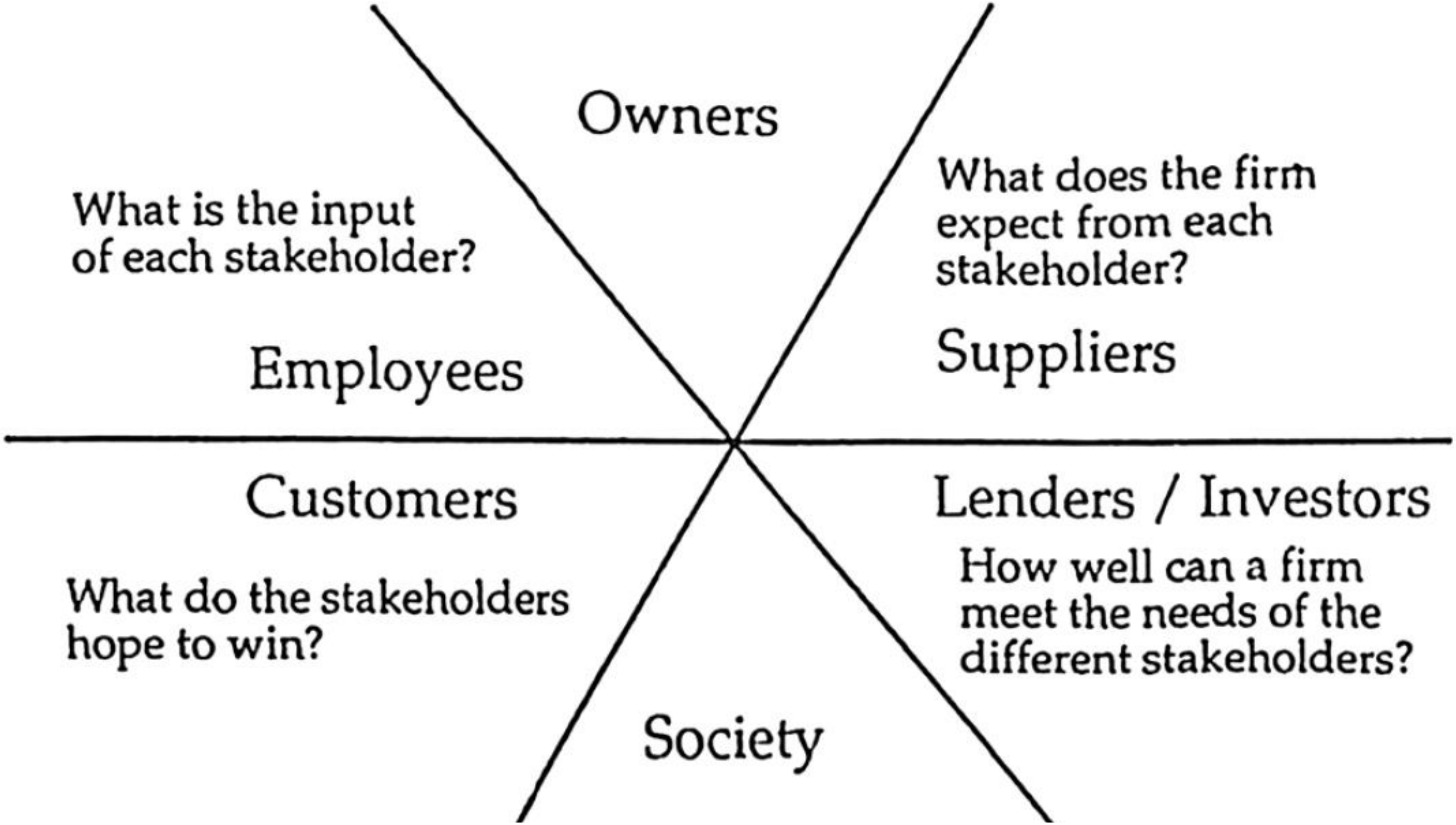
Fig. 4

a An example of stakeholders of an advertising agency (Näsi 1979) and **b** an example of contributions/rewards in the case of a knitwear manufacturing firm (Näsi 1979)

Strand, R. (2015) Scandinavian Stakeholder Thinking: Seminal Offerings from the Late Juha Näsi, *Journal of Business Ethics*, 127 (1), pp. 89-105. Page 101 and **citing Na¨si, J. (1979). Yrityksen suunnittelun perusteet. Yrilyksen taloustieteen ja yksityisoikeuden laitoksen julkaisuja A 1: 15. Tampere: Tampereen yliopisto.**

a

Stakeholder thinking at the strategic level



(Strand, 2015, page 103 citing: Tuokko, Y. (1974). Yrityksen suunnittelutoimi. Porvoo: WS

Examples of stakeholder expectations:

Owners:
Economic expectations
-dividends/yields for investments
-price trends for shares
-possibility to convert shares into money
-forthcoming free issue of bonus shares
-other benefits for the shareholder

"Other expectations
-authority
-prestige
-membership in administrative bodies

Employees:
-reasonable compensation in money
-recognition
-self-respect
-working environment
-inspiration
-security: continuity, permanence
-chances of promotion

Customers:
-reliability of products
-product development
-prices
-guarantees
-service: spare parts, garages
-continuity

Suppliers:
-prices
-prompt payment
-permanence
-continuity
-growth

Lenders:
-loan servicing
-reliability
-permanence
-continuity
-growth
-adaptability to general
economic policy

Society:
-reliability of the firm
-nationality
-services of the society
-social development
-economic expectations: salaries, taxes

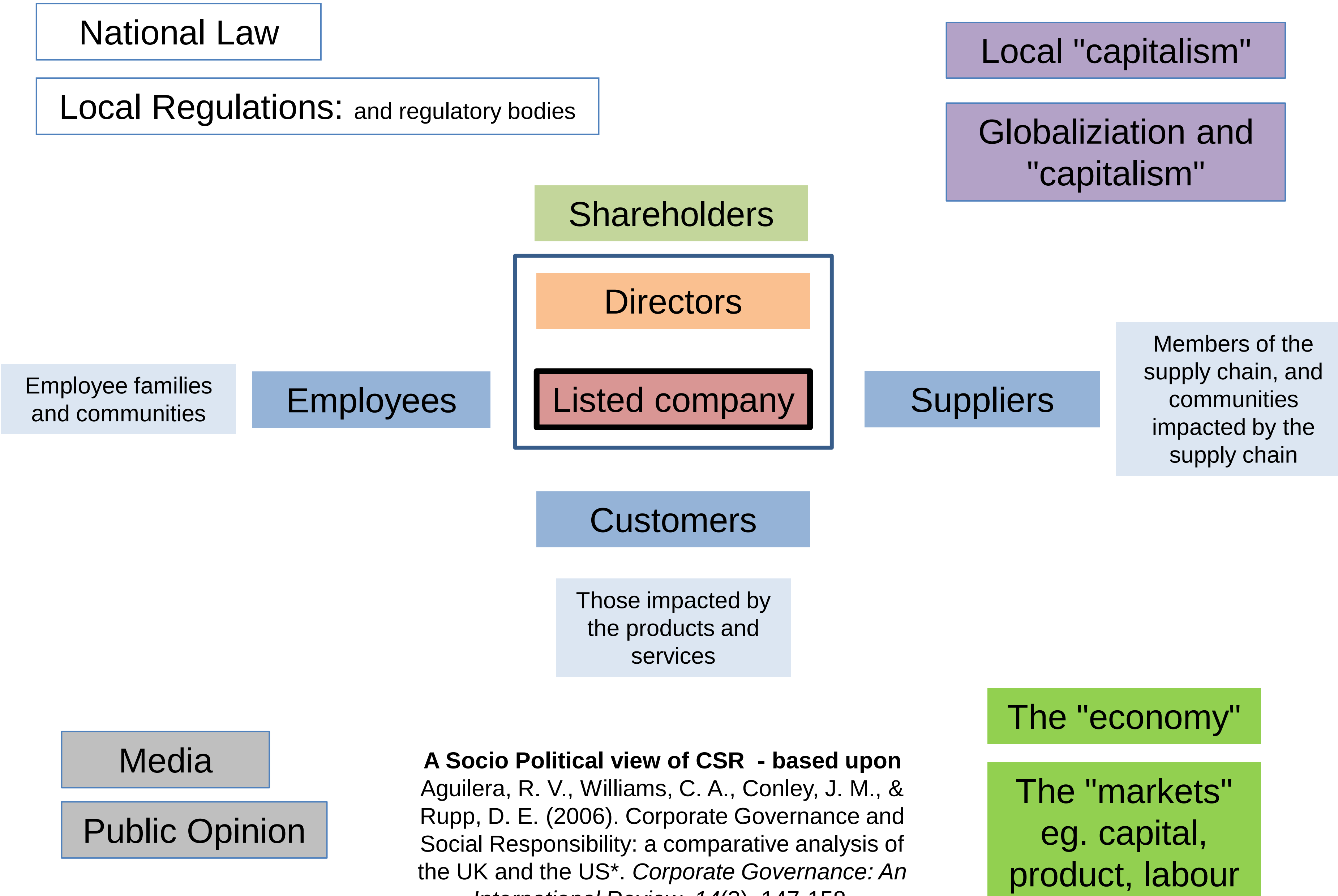
(Strand, 2015, page 103 citing: Tuokko, Y. (1974). Yrityksen suunnittelutoimi. Porvoo: WSOY.)

Fig. 6 **a** Stakeholder expectations (Tuokko 1974) and **b** stakeholder expectations

First view of Amer 2014 Board: a Finnish case study

Stakeholder "contributions"

Corporate Governance



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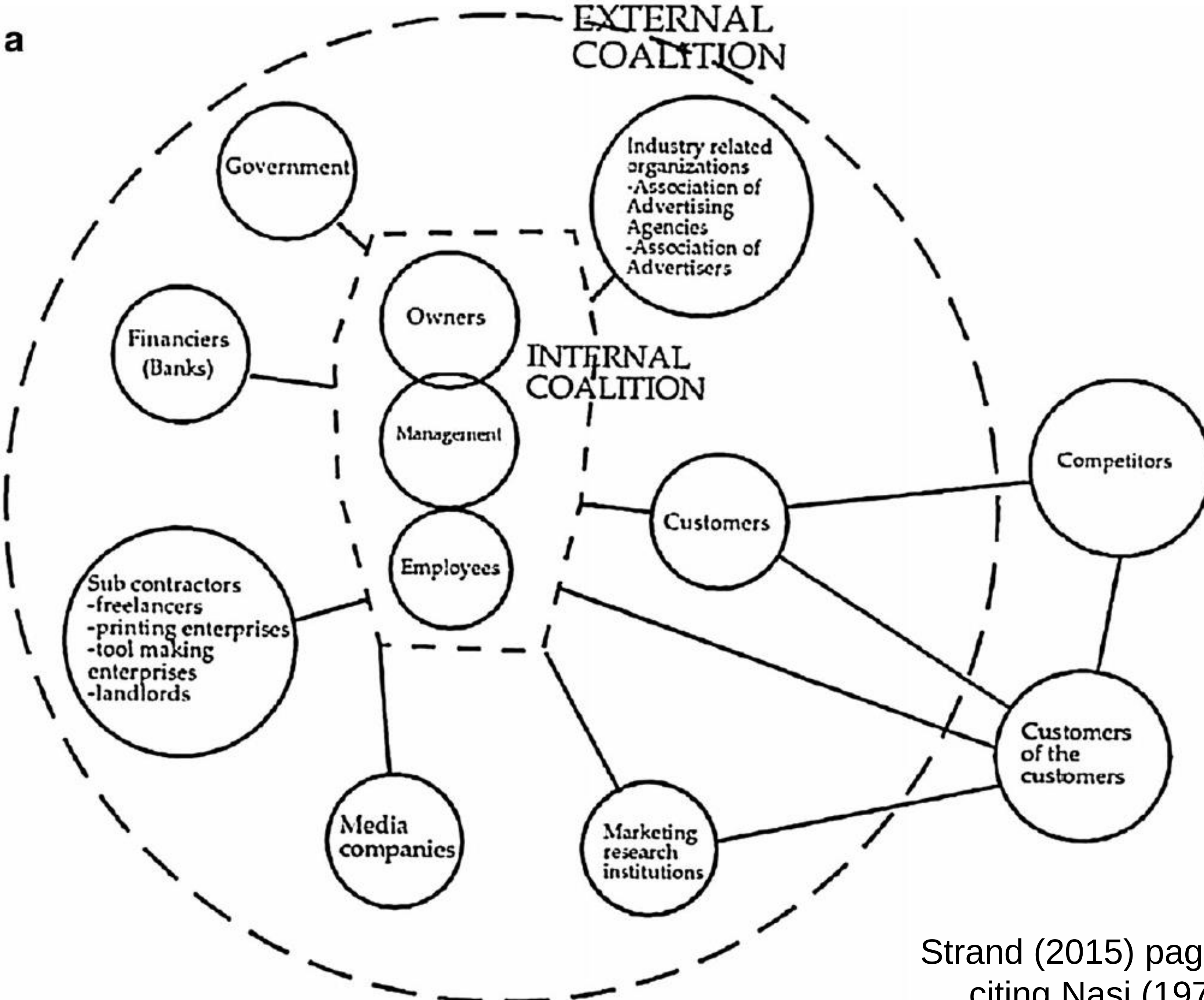
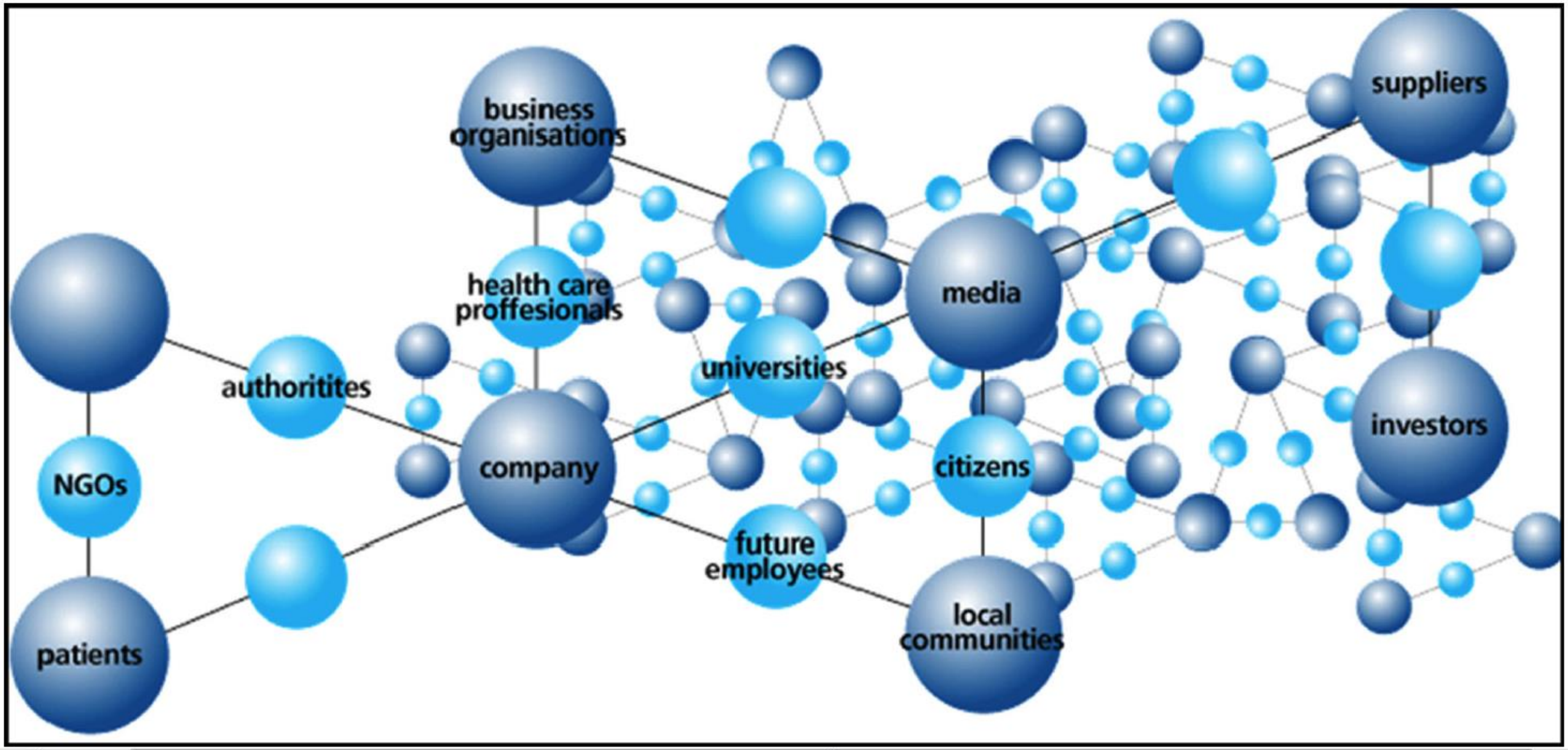
a



Strand (2015) page 101
citing Nasi (1979)

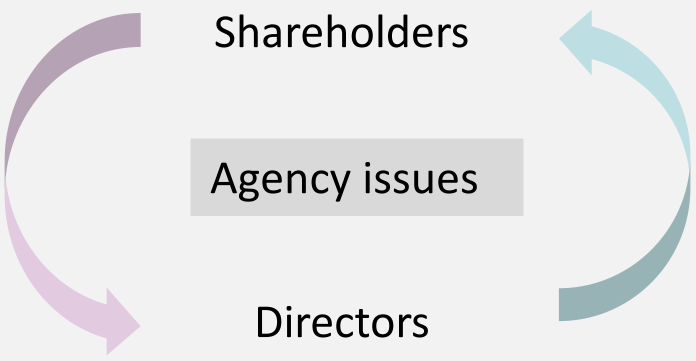
Strand, R. and Freeman, E. (2015) Scandinavian Cooperative Advantage: The Theory and practice of Stakeholder Engagement in Scandinavia, *Journal of Business Ethics*, 127(1), pp.67-85

Fig. 8 Evolution of stakeholder engagement at Novo Nordisk



Corporate Governance of listed companies in the UK

UK Corporate Governance Code



The Annual Report and Accounts

Fostering Investment through confidence

Chairman (non exec in this case)

SIG plc: Board Composition

CEO: Chief Executive Officer

FD: Finance Director (sometimes CFO)

Non Exec: old boy

Non Exec: old FCA

NED: specialist marketing

Non Exec: current CEO

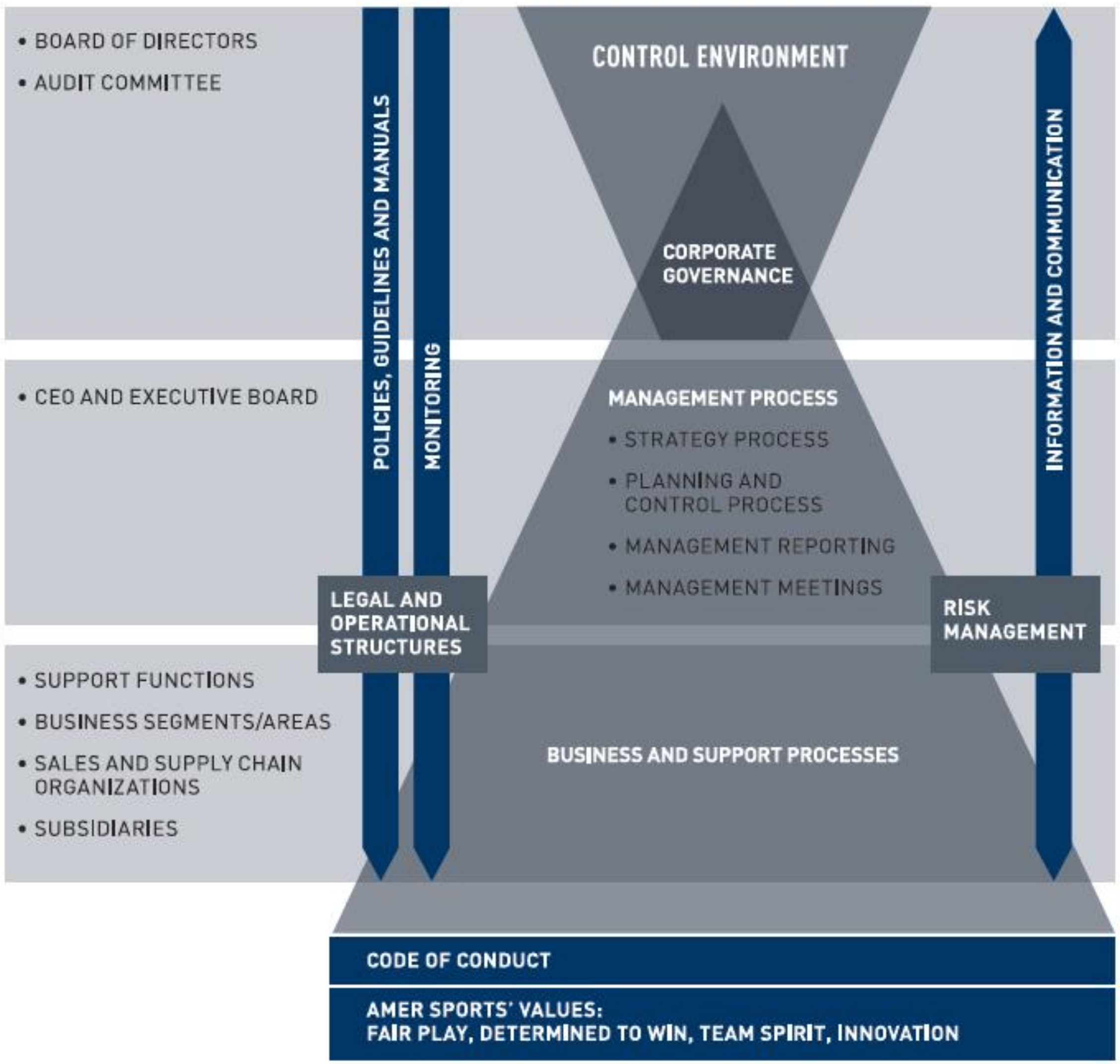
A typical UK Board

Second view of Amer 2014 Board: a Finnish case study

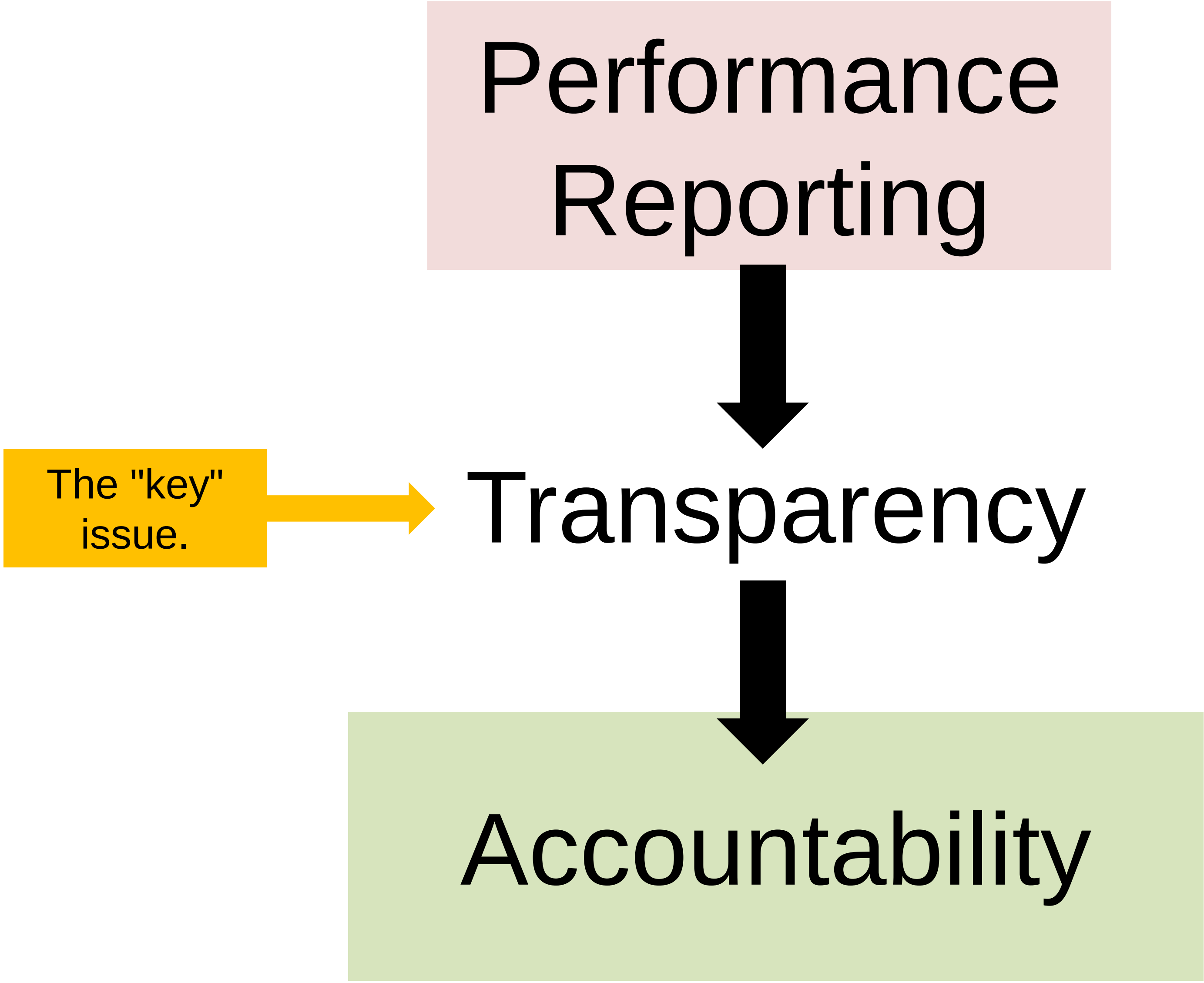
Directors

Corporate Governance information

AMER SPORTS INTERNAL CONTROL FRAMEWORK



Technical Corporate Governance: and finding helpful information


Performance Reporting
The "key" issue.
Transparency
Accountability

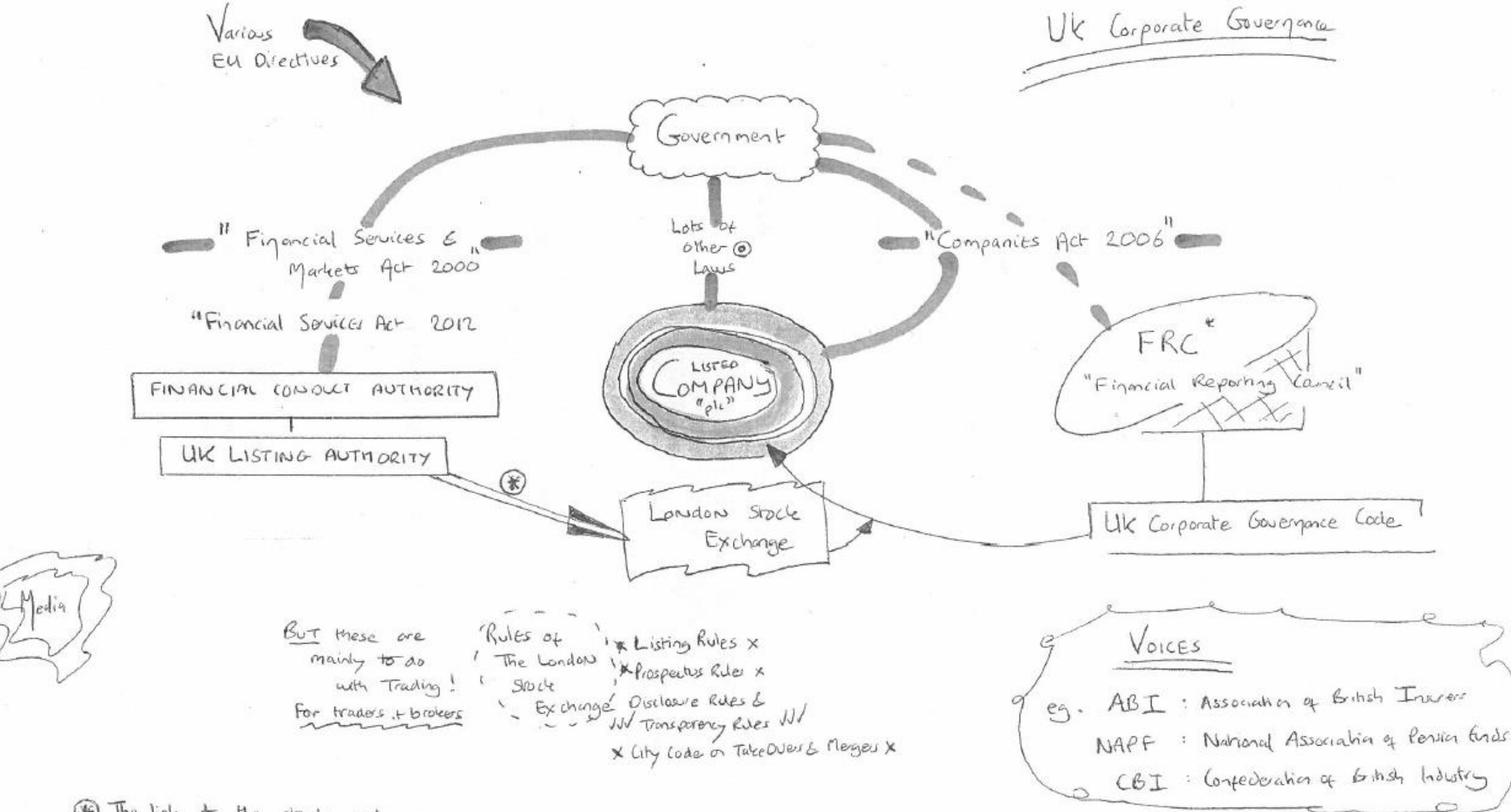
Key sources of information

The Audited Annual Report and Accounts

CSR or Sustainability Reports

Website: look under Investors / Governance / Responsibility

UK Corporate Governance



⊛ The link to the stock exchange listing rules is via:

DTR 7.1 Audit Committees

DTR 7.2 Corporate Governance Statements

'DTR' are the stock exchange's DISCLOSURE and TRANSPARENCY RULES

⊙ eg Insolvency Act 1986

Health + Safety Legislation

Human Resources Legislation etc...

* frc.org.uk

an independent regulator who exist to promote high quality corporate governance + reporting

Headline Review of

UK Corporate Governance Code 2014

Finnish Corporate Governance Code 2010

Corporate Governance Theories

Some theories to help you analyse the Board

Nicholson and Kiel (2007) Can Directors impact performance? A case based test of three theories of corporate governance. *Corporate Governance an International Review,* 15(4), pp. 585-608.

Resource dependency theory

Agency theory

Stewardship theory

One way to analyse The Board: Resource dependence theory

See **Nicholson and Kiel (2007)** Can Directors impact performance? A case based test of three theories of corporate governance. Corporate Governance an International Review, 15(4), pp. 585-608.

"the board is an essential link between the firm and the essential resources that the firm needs to maximise its performance"

resources include:

links to financing and capital markets
links to key suppliers
links to key customers

but resource is always context dependent

the Board itself becomes a resource in this theory

Resource dependence viewpoint

Positions

Skills

Career histories

Sector backgrounds

Connections with key stakeholders

Agency theory

See Solomon pages 17 to 21. See Nicholson and Kiel (2007).

The directors are "agents" of the shareholders. As such they do not always act in the best interests of the shareholders, sometimes they will do what they "think best" and at worst make decisions in their own best interests. Notice though that an agent is not automatically morally culpable: simply that an agent might not act in the way a principal wants them to (or wanted them too). The theory assumes that at some point "conflict" will rise between the directors (as "agents" and shareholders).

People using this theory to understand Directors will assume that they have to be "incentivised," "monitored," and "treated with scepticism" because as Agents they might not take long term decisions in the very best interests of the company. Conversely, Directors might actually take decisions that are in the best long term interests of shareholders - but this might be contrary to the wishes of some short term shareholders.

Nicholson, G. and Kiel, G. (2007) Can Directors impact performance? A case based test of three theories of corporate governance. Corporate Governance an International Review, 15(4), pp. 585-608.

Agency theory perspective

Independence of the non executives

Power of the non executives

Remuneration packages

Shareholdings

Stewardship theory

See Nicholson and Kiel (2007)

"in contrast to agency theory, stewardship theory posits that [executive directors] are essentially trustworthy individuals and so are good stewards of the resources entrusted to them since they spend their working lives in the company they govern , they understand the business better than outside directors and so can make superior decisions….."

Stewardship theory perspective

Length of service

Performance evaluation

Service contracts

Explains WHY they are remunerated in such a way

next plc

REMUNERATION REPORT

ELEMENT Purpose and link to strategy	Operation	Maximum potential value
Salary To provide a satisfactory base salary within a total package comprising salary and performance-related pay. Performance-related components and certain benefits are calculated by reference to base salary. The level of salary broadly reflects the value of the individual, their role, skills and experience.	Reviewed annually, generally effective 1 February. The Committee focuses particularly on ensuring that an appropriate base salary is paid to directors and senior managers. The Committee considers salaries in the context of overall packages with reference to market data, individual experience and performance, and the level and structure of remuneration for other employees and the external environment. External benchmarking analysis is only occasionally undertaken and the Committee has not adopted a prescribed objective of setting salaries by reference to a particular percentile or benchmark.	There is no guaranteed annual increase. The Committee considers it important that base salary increases are kept under tight control given the multiplier effect of such increases on future costs. In recent years, increases in executive directors' salaries have been in line with the wider company cost of living awards. Under the new regulations the Company is required to specify a maximum potential value for each component of pay. Accordingly, for the period of this policy no salary paid to an executive director in any year will exceed the median base salary of FTSE 100 Chief Executives as confirmed by independent advisers. Currently this is circa £850,000 per annum.
Annual bonus To incentivise delivery of stretching annual financial goals. To provide focus on the Company's key financial objectives. To provide a retention element in the case of the Chief Executive as any annual bonus in excess of 100% of base salary is payable in shares, deferred for a period of two years and subject to forfeiture if he voluntarily resigns prior to the end of that period.	Performance measures and related performance targets are set at the commencement of each financial year by the Committee. Company policy is to set such measures by reference to pre-tax EPS but the Committee retains flexibility to use different performance measures during the period of this policy if it considers it appropriate to do so. At the threshold level of performance, 20% of the maximum bonus may be earned. A straight sliding scale of payments operates for performance between the minimum and maximum levels. There is no in-line target level although, for the purposes of the scenario charts on pages 52 and 53, 60% of maximum bonus has been assumed because it is the mid-point.	At present Company policy is to provide a maximum bonus of 150% of salary for the Chief Executive and 100% of salary for other executive directors. Although the Committee has no current plan to make any changes, for the period of this policy the Committee reserves flexibility to: - increase maximum bonus levels for executive directors in any financial year to 200% of salary. This flexibility would be used only in exceptional circumstances and where the Committee considered any such increase to be in the best interests of shareholders and after appropriate consultation with key shareholders; - lessen the current differentials in bonus maximums which exist between the Chief Executive and other executive directors; and - introduce or extend an element of compulsory deferral of bonus outcomes if considered appropriate by the Committee.
LTIP To incentivise management to deliver superior total shareholder returns ("TSR") over three year performance periods relative to a selected group of retail companies. Retention of key employees over three-year performance periods.	A variable percentage of a pre-determined maximum number of shares can vest, depending on relative TSR performance against the comparator group the Committee selects at grant (current practice is to select a comparator group of retail companies (shown on page 64)). The maximum number of shares that may be awarded to each director is a percentage of each director's base salary at the date of each grant, divided by NEXT's average share price over the three months prior to the start of the performance period. LTIP awards are made twice a year to reduce the volatility inherent in the TSR performance measure and to enhance the portfolio effect for participants of more frequent, but smaller, grants. The Company has the option to settle vested LTIP awards in cash. The LTIP does not credit participants with additional value in respect of dividends paid over any vesting period (except that the Committee has discretion to award such credit for special dividends).	Since 2008, the maximum aggregate annual award allowed under the current plan rules has been over shares worth 200% of base salary (and up to 300% in exceptional circumstances). With effect from 2012, the maximum value of any LTIP awards that vest for a participant in a year has been capped at £2.5m. Within this maximum, the Chief Executive and other executive directors receive grants equal to 100% and 75% of annual salary respectively every six months. The Committee reserves the right to vary these levels within the overall annual limits described above. For 2014 onwards, the Committee has decided that the maximum possible aggregate value of awards granted to all executive directors will be 200% of annual salary (i.e. 100% every six months). The Committee reserves the right to vary these levels within the overall annual limits described above. In addition, awards granted to executive directors which vest must be taken in shares and the net shares (after payment of tax and NIC) must be held for a minimum period of two further years. The Committee reserves the right to lengthen (but not reduce) the performance period and to introduce a retention period or to further increase this holding period. In light of the cessation of further grants under the SMP (see below), the Committee has reviewed the cap on the maximum value of LTIPs vesting for any participant in any one year and has decided it is appropriate to remove the cap for LTIP awards **granted** to executive directors after January 2014. The £2.5m cap will remain in force for **vesting** LTIPs with three year performance periods ending in financial years to January 2015 and January 2016.

Show an awareness of

the internal motivation of the Directors

Session 2: Rolling program of work

For a company in a particular country that you could analyse for the poster presentation

Stakeholder contributions

The company within the socio-political landscape

The Board: using the appropriate Corporate Governance Code
The Board: using theories presented

Describe → Explain how → Criticise → Conclude
→ Explain why
→ Explain the implication/impact

→ Analyse further