The Changing Face Of UK Corporate Governance

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Exam Question

Would Good Corporate Governance Make Any Difference?
What is corporate governance?

Why do we need governance?

Does governance work?

Where might we go from here?
Z/Yen

♦ Special – City of London’s leading commercial think-tank
♦ Services – projects, strategy, expertise on demand, coaching, research, analytics, modern systems
♦ Sectors – technology, finance, voluntary, professional services, outsourcing

- Independent Publisher Book Awards Finance, Investment & Economics Gold Prize 2012 for *The Price of Fish*
- British Computer Society IT Director of the Year 2004 for PropheZy and VizZy
- DTI Smart Award 2003 for PropheZy
- *Sunday Times* Book of the Week, *Clean Business Cuisine*
- £1.9M Foresight Challenge Award for Financial Laboratory visualising financial risk 1997
'When would we know our financial system is working?'

Objectives:
- Expand Frontiers
- Change Systems
- Deliver Services
- Build Communities
The Neverending Story

What are we here for?

Pressure to examine role

Re-examine organisational boundary

Organisational role

Develop capabilities

Must generate VFM

“Prediction is extremely difficult. Especially about the future.”

Niels Bohr
What Is Corporate Governance?

“Governance structures and processes are the means by which each organisation guides the activities of its members towards achievement of its goals.”

[“Beyond Compliance”, Vagneur, K. and Evers, S., London Society of Chartered Accountants, 1998]
Do We Need Governance?

- Fundamental to multi-entity groups achieving goals - resolving conflict
- Aid to multi-stakeholder groups achieving goals - satisfying need to know
- Aid to re-directing multi-entity or unitary groups towards new goals - directing

“Don’t misunderstand me.”
attributed to George W Bush
“The Act of God designation on all insurance policies; which means, roughly, that you cannot be insured for the accidents that are most likely to happen to you.”  Alan Coren
Principles of Governance

Ends
♦ Clarity of goals
♦ Fairness in dealings - stakeholders
♦ Transparency
♦ Accountability
♦ Responsibility

Means
♦ Reduce risk – standards, controls & reporting
♦ Enhance reward – strategy & projects
♦ Increase certainty – systemic management & independent assessments

“The future will be better tomorrow.”

Dan Quayle
Philosophical Splits

Measure
- Numerical targets
- Engineering
- Automation

Manage
- Checklists
- Procedures
- Inspection

Motivate
- Contribution
- Commitment
- Culture

Six Sigma
ISO9000
Total Quality

“96.37% of all statistics are made up.”
Kevin D. Quitt
“This [competitive advantage] requires significant flexibility to take necessary risks in responding quickly to opportunities and challenges in a constantly changing environment.”

[“Corporate Governance”, OECD 1998]
Why Is Governance Growing?

♦ Traditional investor approach addressing mission creep and mission leakage


♦ Increasing encroachment on degrees of freedom of corporate entities, OECD - Corporate Governance

♦ New auditing values - environmental (ISO, stewardship councils), societal (Investors in People, child labour), political, technological (genetically modified organisms)
Grouping Governance

Social

Strategic

Management

Operational

Legal
**Competitors? Co-opetition? Carpetbaggers?**

Anyone with a view, a grudge, or out to make a buck...

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<td><strong>Supra-national</strong> – EU, OECD, World Bank Caux Roundtable Global Reporting Initiative, Social Venture Network, Global Sullivan UN Global Compact</td>
<td>IFAC IASB ISDA BIS IAIS</td>
<td>FTSE4Good, BiE, Innovest, EIRIS, TruCost, SAM, Governance Metrics, &lt;IR&gt;</td>
<td>ISEAL Alliance… Amnesty International, risk mapping … IFA Transparency International</td>
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What Is Governance?

Governance ensures organisations can fulfil their purpose.

Performance versus Possibility Paradox?
Crass Business School
Ethical Paradox

OUTCOME

Good

Not Good

PROCESS

Wrong Thing

Right Thing

Spiv

Just Do It

Don’t Do It

Patsy

Ethical Nuances Zone

[Harris 2008]
Does Governance Work?

Knightian Ignorance
“Are you not thinking what I’m not thinking?”

“Most of these 'rating the ratings' papers reach the conclusion that encompassing composite measures of CG are ineffective … while the criticisms made by the 'rating the ratings' papers are justified, their recommendations are misguided … reverting to simpler measures of firm-level CG practices is a step in the wrong direction”

Religion or ‘Pixie Dust’?

‘Bundles’ thinking:

♦ configuration – effects in combination – Anna Karenina Principle

♦ equifinality – ‘bundles’ can overlap confusingly

♦ contingency – contexts vary widely

♦ degrees of implementation – intensity, “do you really really believe and implement X”

Ya gotta have faith...
Nupe Sand Divining

[Source: http://www.necep.net/scripts/detail.php?id=89]
How To Measure Governance?

- Reduce Risk
- Enhance Reward
- Increase Certainty

- ‘Margin’
- Sustainability
- ‘Flexibility’
- ‘Stability’
Sustainable = Stable?

Average Premium/Discount to Market by GMO Composite Valuation
Top 1000 UK stocks, mcap-weighted quintiles, Dec-69 to Aug-03, 5-year earnings volatility

Source: GMO & Z/Yen
Goodhart’s Law

“When a measure becomes a target, it ceases to be a good measure.”

Professor Marilyn Strathern FBA
A novel use for options theory

Fishy maths

Putting a price on sustainable fishing

If they were grateful types, Alaska salmon fishermen would feel their future was a little more secure, thanks to an equation first developed in 1973 for pricing financial options. The Marine Stewardship Council (MSC), a not-for-profit agency that campaigns for sustainable fishing, has given the Alaska salmon industry its stamp of approval, as it has the fishing of New Zealand hoki, Western Australia rock lobster, Burry Inlet cockles (in Wales) and Thames Blackwater herring. MSC certification ensures a certain standard of fishery and environmental manage-
Might More Research Make A Difference?

“I took a course in ethics, but everything was contradicted by the course I took in accounting.”
Where Might We Go From Here?

Good Governance Index - June 2015

Index issues:

♦ lack of theoretical structure – environmental? invariable across firms?
♦ how to evaluate measurement errors
♦ who evaluates
♦ how to weight
Discussion Issues

♦ Why is Governance perceived to be so expensive in practice?
♦ What mechanisms other than external pressure are effective in changing Governance?
♦ Can Governance models commit suicide or rationalise when needed?
♦ What is the difference between Governance and Politics?

“Inertia can develop a momentum of its own.”
attributed to Douglas Hurd by Lord Howe
When Would We Know Our Commerce Is Working?

♦ When we’re equitable - space?
♦ When we’re sustainable - time?
♦ When we’re happy?

“Get a big picture grip on the details.”

Chao Kli Ning