CHAPTER 2: CORPORATE GOVERNANCE AND HRM

Sepideh Parsa

Overview of Chapter

This chapter begins with a comparison of different definitions of corporate governance arguing that governance structures are the end results of social and political processes. The chapter then moves on to discuss different corporate governance mechanisms and how employees in each mechanism are considered. Three governance mechanisms, namely the Anglo-Saxon mechanism in the UK, the stakeholder approach in Germany and the Japanese corporate governance mechanism are discussed. This is followed by a review of the development of those aspects of the regulatory codes that could have impacts on employees. The chapter ends with a section on three theoretical perspectives that are commonly used in corporate governance literature and how employees are positioned in governance structure within each theoretical perspective.

Learning Objectives

After completing this chapter, you should be able to:

- Critically evaluate theoretical definitions of corporate governance and apply their relevance to HR decision-making;
- Appreciate major corporate governance mechanisms and their potential impacts on employees;
- Compare and contrast several theoretical arguments that are commonly used in corporate governance and are pertinent to employees and their relationships with company.

HRM in the media

"Breaches of Human Rights in Apple's vale chains"

In 2006, Western media revealed breaches of human rights in Foxconn, the main supplier factory of Apple Computer Inc. in Taiwan. With a few possessions and a bucket to wash their clothes, workers lived in high security dormitories where visitors were not permitted. They had to work 15-hours per day for $50 per month and had to do overtime when asked without being able to say no. Similar stories emerged about other supplier factories.

All this was in breach of Apple's 'Supplier Code of Conduct', outlining that their suppliers must uphold the human rights of workers; treat them with dignity and respect. According to the Code, the workers should have been restricted to a 60-hour work per week and not more. All that was reported was in breach of Apple's Supplier Code of Conduct.

Recent reports indicate signs of gradual improvements. Workers have access to free Wi-Fi, television lounges, cleaning services and even options to upgrade dorms. Nonetheless, factories still operate under tight security with high levels of secrecy surrounding their operations. Base wages are still low. Workers have to work excessive hours to make ends meet and even if they do not want to, they cannot refuse as there are still no independent unions negotiating their wages and working hours with their companies. Managers often humiliate individual workers for poor performance in front of others.

Questions

1. As an American company having its value chains in China, what assumptions could be made about how Apple Computer Inc. weighed the interests of shareholders and its workforce in its value chains?
2. How may alternative governance mechanisms lead to different outcomes?

Introduction

What we understand by the term "corporate governance" underlines our perception of how companies operating in any society can have an impact on the manner in which people are managed within organisations. In the UK the corporate governance codes of conducts have been devised primarily to protect shareholders' interests over the interests of other parties, including employees. In countries like Germany and Japan, the governance mechanisms are designed in a way that employees' rights and interests are protected. This is achieved by the inclusion of employees in the governance mechanisms so that they can take part in the decision making processes and voice their views and concerns so that their long-term interests can be protected. A better understanding of different types of governance mechanism and how they operate and treat their employees can be attained by looking at the justification and reasoning that are argued under different theoretical perspectives. Hence, the chapter reviews agency theory, stakeholder theory and resource dependence theory.

Definitions and Concepts

The HRM policies of a company are pertinent to the overall strategic management approach adopted by the company. If strategic management is defined as the process through which a company develops its critical goals and resources (Boxall and Purcell, 2006: 55), the HRM policies are determined by corporate goals and the resources that the company has chosen to access. The decision on the choice of corporate goals and which resources to access are made at the top managerial level or what is commonly regarded as corporate governance. The approach taken to corporate governance will determine the content and approach taken on HRM-related issues, such as the hiring, firing and outsourcing of elements of the workforce, the training of the work force, employee voice issues and pay and reward packages. The next section presents discussions on what is meant by the term corporate governance.

Corporate Governance

Corporate governance originates in the nineteenth century when the need for legislation and regulation arose with the advent of limited liability companies. The term "corporate governance" came out of a seminal analysis by Berle and Means (1932) who drew attention to a managerial revolution whereby control was transferred from owners to managers. A common ownership model is that of "disbursed shareholding" whereby ownership is held by a wide range of remote shareholders rather than an owner on the premises. In such companies, professional managers assume the responsibility of running the company. Traditionally, most definitions of corporate governance allude to the interest of shareholders and how managers are entrusted with the responsibilities and duties to manage the company in a way that serves the shareholders' interests. The regulatory codes of conduct, for example, define corporate governance as "… the system by which companies are directed and controlled." (Cadbury Report, 1992) According to the Higgs Report (2003: 11), "corporate governance provides an architecture of accountability - the structures and processes to ensure companies are managed in the interest of their owners". Sheik and Rees (1995: 5) take a similar view and state that corporate governance is a "… system whereby directors are entrusted with responsibilities and duties in relation to the direction of the company's

affairs. It is founded on a system of accountability primarily directed towards shareholders in addition to maximising shareholders' welfare".

Considering the pivotal role of corporate governance in distribution of wealth and creation of opportunities, everyone has an interest in how governance mechanisms are structured (ibid, 2005). A broad definition is by Bruchell *et al.* (1991: viii) who states that " … governance is an activity and an art which concerns all and touches each. And it is an art which presupposes thought." Governance, in view of Starkey (1995: 843), "… is more than the legitimation of authority or taming of power. It lies at the heart of the organizations we work in and live our lives through. What we expect and demand of governance will determine what kind of society we and our children shall live in". In other words, corporate governance can entail the interests of a range of groups rather than merely shareholders. A similar view is adopted by Tricker (1984) who makes the distinction between management and governance and argues that management role is pertinent to decision making to run the business operations efficiently within the company boarders. By contrast, he argues, governance is about monitoring the actions of corporate managers and satisfying the legitimate expectations of accountability beyond the company borders. According to Tricker (1984), corporate governance comprises four principle activities: (1) direction which deals with formulating the long term strategic direction of a company, (2) executive action which relates to the crucial executive decisions, (3) supervision which involves monitoring and oversight of management performance, and (4) accountability which is concerned with recognising responsibilities to those making a legitimate demand for accountability.

For Keasey *et al.* (1997: 2), corporate governance is the formal mechanism through which senior managers are held accountable to shareholders first and foremost and embraces the entire network of formal and informal relations which involves the corporate sector and their consequences for society in general. By this definition, a wider range of stakeholders are taken into consideration. Keasy *et al.*'s (1997) definition goes a step further than the traditional definition of corporate governance which mainly addresses the separation of ownership and control in the concept of principle-agent problem within agency theory framework. Another broad definition is by Sheridan and Kendall (1998: 27) who describe corporate governance as a system of structuring, operating and controlling a company in order to "(1) fulfil the long term strategic goal of the owners, (2) consider and care for the interests of employees, (3) take account of the needs of the environment and the local community, (4) work to maintain excellent relations with both customers and suppliers, and (5) maintain proper compliance with all the applicable legal and regulatory requirements". A similar view is adopted by OECD (2004) where corporate governance is defined as a structure involving a set of relationships between corporate managers, its shareholders as well as other stakeholders through which company objectives are set and eventually attained. According to OECD (2004: 11), governance mechanisms should be designed in a manner that improves economic efficiency and growth as well as enhancing investor confidence … [whereby] … synergy between macroeconomic and structural policies in achieving fundamental policy gaols [can be achieved]".

When ownership takes the form of disbursed shareholding and professional managers assume the responsibility of running the company, it becomes necessary to have a system of control over those

managers to ensure that the company is managed in the best interest of the shareholders. The concept of corporate governance appears to have gone further than its traditional perspective where shareholders are regarded as the only parties to whom companies pay attention to and are held accountable to.

Corporate Governance Structures

Most traditional definitions of corporate governance adhere to Anglo-Saxon governance structures whereby mechanisms are designed to mitigate the problems arising from separation of ownership from control which could ultimately lead to poor communication and hence information asymmetry between owners and managers leading to the lack of trust between the two groups. In countries with Anglo-Saxon corporate governance mechanisms, e.g. the UK and US, shareholders rely on boards of directors as the primary source of management oversight and accountability. In Anglo-Saxon structures, managers, given the opportunity, are assumed to maximize their own utility rather than acting in the best interest of the owners. In order to ensure that managers act in the best interest of shareholders, it is imperative that governance structures are designed in such a way that they would ensure that managers act in the best interest of shareholders.

In the UK, all the regulations regarding managerial conduct within corporations take the form of voluntary codes that do not have the status of law or regulations. From a statutory point of view, the interests of employees are considered, but that "… only their "relationship" with the company's needs is to be considered, and then only as an adjunct to the aim of shareholder profit maximization." (Wedderburn, 2004: 43) Also known as the "comply-or-explain" approach, the use of voluntary codes ensures the greater likelihood of companies obeying the spirit, rather than just the letter of the law (Kirkbride and Letza, 2003). The governance regulations in the UK developed after a series of corporate scandals in 1990s and has continued to evolve as more corporate failures has unfolded over the years. The number of corporate governance committees established, and the resulting codes of best practice, attest to the importance attached to the subject of corporate governance over the years, yet critics argue that the various committees set up to reform corporate governance have been shaped by histories, conflicts and politics (Sikka, 2008; 2011) and that employees, or their representatives, have been continuously kept out of governance mechanisms leading to the inequalities in the distribution of wealth and income within and beyond the corporations. A number of attempts have been made to facilitate an element of employee representation on UK boards going back as far as 1975 have been proposed but resisted.

In contrast to the Anglo-Saxon structure, the German model adopts an approach where companies are required to act in the interest of all "stakeholders". The central characteristics of the German corporate governance model is that all interested stakeholders – managers, employees, creditors, suppliers and customers – are able to monitor corporate performance (Clarke, 2007: 181). The German model was formed after the World War II and formally recognizes workers' participation in managerial decision-making. The German corporate governance mechanism "… is not only bank based, but also has weak rights for minority shareholders, a lower rate of return for shareholders and weakly developed market for corporate control" (Beyer and Hassel, 2002: 310). It has a system of "… centralised wage bargaining which gives labour a prominent role in the

firm's decisions on restructuring and pursuing product market strategies" (Beyer and Hassel, 2002: 310). In other words, companies are coordinated through non-market mechanisms with a greater reliance on collaborative rather than competitive relationships to build firm competence.

The German post-war *co-determination* legislation was designed to systematically involve employees in various aspects of business, allowing a vocational system and incentives for high skill levels and more stable employment (Hiss, 2009). Under this model, employee representatives fill half of the seats on companies' supervisory boards. A separate management board is responsible for running the business day to day. The German employees can influence managerial decision making through mechanisms that are legally recognized. The law specifies the particular roles of workers and managers and how workers can influence managerial decision making. Employees' participation is not always mandatory but employees are given the legal right to have work councils if they choose so (Blair and Roe, 1999). There is a dual system in which unions and employers negotiate wages while work councils oversee working conditions.

The Japanese corporate governance mechanism, also adopting a stakeholder approach, was developed in its current format after World War II when economic policies were devised through strong but informal links between liberal Democratic Party, government ministries and industry (Aoki, 2001). This promoted a "cohesive and solidaristic model of national political economy" (Jackson and Miyajima, 2007: 5).

In the Japanese governance mechanism employees play a central role (Dore, 2000) while shareholders have limited role in monitoring and control of corporate managers. By contrast to German system, Japanese system embodies an informal approach to the inclusion of employees whereby employees' participation is assured through a set of conventions that are not legally recognized but where the level of employees' participation is high due to the emphasis on long term relationships with employees. The concept of "lifetime employment" implies that employees stay with their company until retirement, reflecting strict legal constraints on dismissals, and "seniority wage" applies as long as employees stay with the same company, in return the company organizes training sessions for them to ensure that their skills are developed so that they can move on to other jobs within the company if they wish to or if there is a need for them to do so (Jackson and Miyajima, 2007). The successful co-operation of employees can be attributed to the way employees are perceived to belong to the "Company Community" (Shishdo, 2000) which embraces a coalition of trading partners (Keiretsu members), management, board members, core employees, banks and other creditors (Blair and Roe, 1999).

Regulatory Perspectives

Historically the regulatory underpinning of corporate governance has been very different in Liberal market economies like the US and UK, than in coordinated market economies like Japan and Germany. In the latter case, corporate governance is built in to the structure of companies themselves so no external regulation has been necessary. In liberal market economies regulatory intervention has generally been a response to corporate governance failures. In US, for example, the approach to corporate governance is 'regulator-led' system that is predominantly enforced by

the Security Exchange Commission regulator, stock exchange listing rules and state law. By contrast, the UK system is 'self-regulatory' and is underpinned by a robust system of company law and market regulations.

In US, each state has its own state law with many states adopting recommendations from the Model Business Corporation Act. All publicly listed companies, registered with the Securities Exchange, have to adhere to the requirements of the Securities Acts (1933 & 1934) and the Sarbanes-Oxley Act (2002). All companies listed on the NYSE (the New York Stock Exchange) and NASDAC (the National Association of Securities Dealers Automated Quotations) should comply with their corporate governance listing rules (which are in line with the Sarbanes-Oxley Act and approved by the SEC).

The UK system, by comparison, is self-regulated and shareholder-led. Shareholders play an active role in corporate governance and are given power and influence through company law (the Companies Acts, 1985 and 1989) to hold boards to account. The Acts provide shareholder rights, enabling a democratic process of board accountability. The Financial Services and Markets Act 2000 (FSMA) provides the framework for the regulations of the financial services. According to the Act, the Financial Services Authority (FSA) has the power to penalise companies for violations of the Listing Rules and other market regulations. At the same time, the Financial Reporting Council (FRC) has oversight role in relation to the accountancy profession and is responsible for setting and enforcing standards. FRC is the major independent regulator responsible for promoting high quality corporate governance and reporting. In UK, all the listed companies have to comply with the strict listing rules related to corporate governance (mainly in compliance with the Combined Code).

UK Corporate governance developments started in 1990s as a response to corporate scandals starting in the late 1980s. Though not legally binding, the corporate governance codes are incorporated in the listing rules of the stock exchange and all publicly listed companies are required to communicate their level of adoption of the code, or otherwise (Solomon, 2013). This is commonly regarded as the "comply or explain" approach. After each major set of scandals, a committee forms to devise rules and guidelines as a response. The Cadbury Report was the first report published in 1992 by the Cadbury committee, outlining a number of recommendations related to the separation of the role of chief executive and chairman, selection processes of non-executive directors, transparency of financial reporting and the need for good internal controls. The Cadbury report included a Code of Best Practice and its recommendations were appended to the Listing Rules of the LSE. It was followed by the Greenbury Report (1995) with a focus on directors' remuneration. In 1996, the Hampel Report was published, reviewing the extent to which the Cadbury and Greenbury Reports had been implemented. This led to the publication of the Combined Code on Corporate Governance in 1998. The Combined Code was redrafted a number of times (2003; 2006; 2008; 2010, 2014; 2016; 2018). In 2003, the Higgs Report was published, outlining recommendations on the role of non-executive directors. Many other reports have been published up to this day, including: the Smith Report (2003; 2008) on audit committee; the Walker Report (2009) on the banking industry and Wates Corporate Governance principles (2018) on transparency and accountability of large private comapnies.

Theoretical Perspectives

The study of corporate governance is complicated by the fact that the structure, role and impact of boards have been studied from various theoretical angles, resulting in a number of sometimes competing corporate governance theories (Kiel and Nicholson, 2003). This multi-theoretic approach is considered by Kiel and Nicholson (2003) as vital for identifying the many mechanisms and structures which may serve to improve the proper functioning of organisations. Agency theory, stewardship theory, resource dependence theory and stakeholder theory are the ubiquitous theoretical perspectives in corporate governance literature.

Agency Theory

Agency theory is the dominant theoretical perspective in corporate governance. Its popularity is due to its simplicity based on the assumption that human behaviour is motivated by rational self-interest (Daily *et al.*, 2003). It was borne out of the existence of the shareholder-owned corporation defined by Berle and Means (1932). The agency relationship is described as one in which "… one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority" (Jensen and Meckling, 1976: 308). The shareholder's lack of active involvement in the company's affairs results in information asymmetry whereby management is better informed about the opportunities, prospects and performance of the company than the shareholders. Healy and Palepu (2001) maintain that the demand for financial reporting and disclosure arise from information asymmetry and conflicts between managers and outside investors.

The crux of agency theory is that managers as agents of shareholders can exhibit behaviour and take decisions that may not maximize shareholder wealth. Opportunities for managers to abscond with shareholders' funds or squander them on non-wealth maximising activities are plentiful and well-documented (Shleifer and Vishny, 1997). The implication of the agency theory for corporate governance is that adequate monitoring or control mechanisms need to be established to protect shareholders from management's conflict of interest (Kiel and Nicholcon, 2003). In another words, there is the need for a large group of corporate outsiders (shareholders) to be able to control the incentives of a large group of insiders (management) (Weinberg, 2003). Hence, Denis and McConnell (2003: 2) define corporate governance as "the set of mechanisms… that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximise the value of the company to its owners…".

These control mechanisms could be either internal or external. Internal mechanisms include an effectively structured board, equity-based and performance-related compensation contracts, and concentrated ownership holdings that encourage active monitoring of managerial decisions (Hendry and Kiel, 2004; Kiel and Nicholson, 2003; Shleifer and Vishny, 1997). The market for corporate control which commonly takes the form of corporate takeovers, proxy contests, and a legal system which guarantees investor rights (Shleifer and Vishny, 1997) are external mechanisms which come into play when internal mechanisms fail (Daily *et al.*, 2003).

To say that a corporate governance mechanism is effective is to say that the benefits of such mechanisms outweigh the costs. The ultimate corporate governance mechanism therefore does not necessarily eliminate the agency problem but rather, is a rational best response to the problem which attempts to balance the costs and benefits of managerial discretion (Weinberg, 2003).

Stewardship Theory

Stewardship theory, which gains its insights from the field of sociology and psychology (Sundaramurthy and Lewis, 2003), has attracted researchers' attention both as a complement and a contrast to the agency theory (Daily *et al.*, 2003). The theory recognizes that there exist non-financial motives for managerial behaviour. These include the need for achievement, recognition, the intrinsic satisfaction of successful performance, respect for authority and the work ethic (Muth and Donaldson, 1998), and reputation (Daily *et al.*, 2003). The steward managers intend to maximize corporate performance believing that they will ultimately benefit when their companies thrive. For example, in order to protect their reputation as expert decision makers, executives and directors are more likely to run the company in a manner that maximises the company's financial performance. Essentially, to the degree that an executive feels that their future fortunes are bound to their current corporate employers, the executive may consider their interest as aligned with that of the corporation and shareholders even in the absence of any shareholding (Donaldson and Davis, 1991).

Based on the assumption that managers may have other motives beyond self-interest, stewardship theorists suggest that goal conflict may not be inherent in the separation of ownership from control (Muth and Donaldson, 1998). Thus, while the agency theory advocates corporate governance structures that control and monitor the actions of management, stewardship theory advocates the empowerment of management. The steward manager is empowered with the information, the tools and the authority to make good decisions for the organization. The principal (i.e. corporate owner) will fully enable the steward (i.e. managers) to act in the best interest of the company, trusting that the steward will make choices that maximize the long-term return of the company. It is argued that devising control mechanisms on stewards will significantly demotivate the steward and be counterproductive for both the steward and for the company (Argyris, 1964). Stewardship theorists strongly believe that having control empowers management to maximise corporate profits. Consequently, they favour CEO duality (Donaldson and Davis, 1991) and insider dominated boards, arguing that compared to outside directors, inside directors contribute a greater depth of knowledge, expertise and commitment to the company (Hendry and Kiel, 2004).

Stewardship theory, according to Smallman (2004), is primarily an argument for a balanced governance where stewards balance tension between different beneficiaries and interest groups to produce firm performance that "satisfies" the interests of all parties. Trust, open communication, empowerment, long-term orientation and performance enhancement are regarded as factors that characterize management philosophy of stewardship (Davis *et al.*, 1997). All these factors appear to be imperative if loyalty and commitment are to be attained at work place. For example, open

communication and empowerment imply high level of commitment by employees in organizations (Walton, 1985).

Stakeholder Theory

Stakeholder theory has its roots in politics, law and management organization studies. Its prominence in organisation studies is attributed to Freeman's (1984) study in which a stakeholder is defined as any group or individual who can affect or is affected by the organisation's objectives. Under stakeholder theory, companies owe some degree of accountability to a range of groups connected with their business other than shareholders. Proponents of the stakeholder theory argue that shareholders are the stakeholders with the least commitment to the company and the greatest mobility. According to stakeholder theory, companies can be viewed as having multilateral agreements with their multiple stakeholders. The relationship between a company and its internal stakeholders is regarded as being either formal or informal depending on the history of the relationship. It is the nature of these relationships that is argued to create strategic possibilities for companies (Clarke, 2007). For instance, while managers rely on their shareholders for financial resources, they should rely on their employees and their expertise to achieve their strategic goals. As Blair (1995) advocates, companies are institutional arrangements that for governing the relationships between all the groups that contribute to companies' operations. Among these groups, employees with specialised skills can be regarded as an important group which makes the attainment of strategic goals plausible. If managers aim to fulfil their fiduciary duty which is to maximize their companies' wealth rather than shareholders' wealth, they are expected to consider the impacts managerial decisions may have on all stakeholder groups. One criticism that could be laid against this line of argument is that management is left with too much freedom to manoeuvre. Sternberg (1997), a critic of stakeholder theory, claims that because it denies that companies should be primarily accountable to their owners, the key concept of corporate governance is lost as accountability to everyone is accountability to no one. Further criticism is levied against stakeholder theory that even if stakeholders could be categorised according to their degree of importance to the company, directors (as agents) would be attempting to serve too many principles, and in doing so they may fail to satisfy those with a genuine claim on the organisation (Smallman, 2004).

Resource Dependence Theory

Resource dependence theory gains its prominence from economics and sociology (Zahra and Pearce, 1989). This theory draws attention to interdependencies of companies by focusing on the relationship between an organization and its constituencies. According to resource dependence theory, resource exchanges are central to these relationships (Pfeffer and Cohen, 1984). Under this theory, groups or organizations gain power over each other by controlling valued resources. For large public limited companies, access to scarce external resources is secured through the presence of outsiders, i.e. non-executive directors. Corporate boards act as co-optative mechanisms that allow companies to interact with their external environments in order to secure vital resources for their operations and hence gain competitive advantage (Stiles and Taylor, 2002).

Most of the literature is on top management and how, for instance, non-executive directors are expected to bring in external resources that aid the company gaining competitive advantage and achieving goals (Hillman *et al.*, 2000). Little attention has been paid to how employees within a company can get hold of vital resources, such as knowledge and expertise that are imperative for the smooth running of operations, and how they continuously need to keep themselves up to date with the latest advances in their field of expertise. Any stakeholder group that hold resources vital to the operations of a company is believed to hold power over the company and powerful stakeholders are to be taken seriously by companies (Boxall and Purcell 2008; Schuler and Jackson, 2007). Employees, through their skills and motivation, have the power to affect corporate performance in significant ways. Hence, a company that intends to be successful should choose human resource strategies, such as how to recruit, organise and motivate employees over time, that are appropriate and serve the best interest of the company and makes the attainment of corporate goals plausible.

Implications for HRM

The approach that an organisation takes to corporate governance strongly influences the kinds of HR policies it will adopt. As is explained in Chapter 1, it is generally accepted that the core functional activities of HR can be subdivided into: (1) Employee Relations, (2) People Resourcing, (3) Employee Reward and (4) Learning and Development (Marchington and Wilkinson, 2008) and these are the sub-categories used by the Chartered Institute of Personnel and Development (CIPD) in its professional standards.

Under agency theory, which dominates governance mechanisms in the most of the Anglo-saxon world, the separation of ownership and control implies that managers are the only ones taking decisions. This feeds into how HR is supposed to operate, where for those like Ulrich (1998), the way for HR to retain influence is to be the indispensable 'business partner' of senior management. Where a more stakeholding approach dominates, the role of HR will still be in the service of management, but there may be more scope for a degree of independence – Kochan (2007), argues that HR will serve itself and organisations better, if it retains critical autonomy from being merely the perfect agent of senior management, seeking to balance a wider array of stakeholder interests. How does this feed into actual HR practice?

In terms of reward, differences emerge between countries where shareholder-value dominates to ones with more stakeholder oriented approaches. In Germany, for example, substantial pay and reward differences between company seniority and ordinary employees are low (Jackson, 2003). Minimum rates with high thresholds, as well as outlining basic provisions and premium pay (e.g. overtime, shift work rates, and holidays) for each grade of employees, are set through collective agreements (Jackson *et al.*, 2004). Criteria for firms to categorise jobs into standardised grades are specified through collective agreements and works councils (Jackson *et al.*, 2004). This considerably reduces the scope for firm-level variation of wages and working conditions. This pattern is less so in countries where shareholder-value dominates. The assertion that senior managers need to be highly rewarded in order to align their interests with shareholders is based upon the assumption of their rational utility maximizing behaviour. In contrast, while we have

witnessed many cases in Anglo-Saxon countries where senior management have received substantial pay packages, ordinary employees have faced the threat of redundancy (hence a resourcing issue) with modest, if any, compensation. As an illustration, in the UK in 2017 the average pay of an FTSE 100 CEO was estimated at £5.3m per annum, compared to £13,662 for someone on the national living wage of £7.20 an hour. FTSE 100 chief executives were paid 165 times more than a nurse, 140 times more than a teacher and 132 times more than a police officer (The Equality Trust, 2017). Despite codes of conducts, there are many examples of executives being rewarded controversial pay packages. For example, BP boss, Bob Dudley, was awarded a controversial £14m pay deal despite the oil giant's massive losses of £3.6bn following a collapse in oil prices.

For employee relations, corporate governance is directly relevant. Companies governed under the principle of shareholder value will be more likely to resist 'pluralist' employee relations approaches that have strong mechanisms for employee voice and favour more 'unitarist' approaches (Fox, 1966). Where the stakeholder version is more dominant, a more pluralist approach to employee relations will be dominant. In countries such as Germany and Japan, the stakeholder approach, implies that, unlike Anglo-Saxon structures, employees are more actively consulted in the decision making process, mitigating managers' exclusive right to decision making (Hiss, 2009). The mandatory presence of worker representatives on the supervisory boards of (large) German companies is a good example of this (Parsa et al, 2018a). Such mechanisms enable a bipartisan flow of information between managers and employees (Davies, 2000). Similarly in Japan, the concept of lifetime employment is convoluted with employees' loyalty where managers continuously seek the views of their employees – though it has to be said this system has seen some erosion since the Japanese economic slowdown from 1995. In such structures, managers cannot easily fire employees at their discretion. For example, German work councils resist short-term layoffs and mandate redeployment through retraining and transfers and any redundancy would be illegal unless the approval of the work councils is obtained (Jackson *et al.*, 2004).

While, for the most part, the distinction between unitarist and pluralist approaches relates to collective bargaining (with unions) it can also feed into corporate governance structures themselves. Thus the inclusion of worker directors on the supervisory boards of German companies is completely alien to the shareholder-value approach in Anglo-Saxon countries.

Beyond the direct mechanisms of labour control, however, there are increasing pressures on larger companies - beyond just shareholders or workers - for transparency about how fairly the workforce is treated in their value chains (Clarke and Boersma, 2017; Parsa *et al.*, 2018b). Recent evidence shows that British companies are less transparent about their employees as they pay less attention to their detailed issues than their German counterparts (Parsa *et al.*, 2018a). By contrast, British companies tend to be *more* transparent about their efforts to protect the human rights of their external workforce than their German counterparts due to the legal requirements set out under the Modern Slavery Act (2015) (Germany does not have similar legal requirements for external workforce) even though both British and German companies aim to be more transparent about their employees than their external workforce (Enhert *et al.*, 2016).

Companies pursue learning and development programmes with the view that doing so would enhance the productivity and performance of their employees which would ultimately result in higher shareholder values. In comparison to agency theory, the stewardship theory views the whole situation from the opposite end of the spectrum whereby managers are argued to act as stewards who endeavour to strike the balance between different interests, deploying the culture of openness and trust. Here, employees are viewed as valuable resources whose motivation and loyalty can get a company through difficult times and put it ahead of its competitors. Although the governance mechanisms in Anglo-Saxon countries are predominantly analysed using agency theory, comparisons to training and development regimes can be made between companies who are governed by regulatory frameworks supporting stakeholder approaches to corporate governance to those where shareholder-value predominates. Thus, in countries like Germany or Japan (Jackson, 2004; Thelen and Kume, 2001), where legislated employment protection has made it harder to dismiss employees, there is greater incentive for companies to train and retrain employees than there is in countries like the US or UK where greater numerical flexibility means higher labour turnover (Harcourt *et al.*, 2007).

Conclusion

This chapter presented an overview of the main governance mechanisms, where employees are located and hence treated in each mechanism. Discussions were presented on different definitions of corporate governance and distinctions were made between the traditional views where shareholders are regarded as the main focus and the more modern definitions where a range of stakeholders are considered. The chapter draws attention to two main governance mechanisms: Anglo-Saxon mechanism, the stakeholder approaches in Germany and Japan. It was illustrated that in the Anglo-Saxon structures, which is predominant in the UK and US, most of the attention is on shareholders and the interests of other stakeholders may be taken into account as long as doing so is in the interest of shareholders. In comparison to the Anglo-Saxon mechanisms, employees lie at the heart of corporate governance in Germany and Japan. In Germany, employees at different levels have the legal right to take part in running of their companies and in Japan, corporate governance is convoluted with the concept of life time employment with strict law against redundancies. The chapter also presented a brief review of the development of those aspects of corporate governance codes that could be related to employees or could reflect managerial decision makings that could have implications for employees. The review revealed that shareholders are the main stakeholders to whom corporate managers are held accountable and all the monitoring and incentive mechanisms are devised to curb utility maximizing behaviour of managers and ensure that their interests are in alignment with those of the corporate owners, i.e. shareholders.

HRM in the media: critical reflections

1. As an American company having its value chains in China, what assumptions could be made about how Apple Computer Inc. weighed the interests of shareholders and its workforce in its value chains?

Apple Computer Inc. is an American company, operating on shareholder-value assumptions of corporate governance and accountability is therefore based on ensuring that shareholder interests are the only legitimate interests in which is needed to be protected by corporate governance structures. Under agency theory, Apple's management focused on maximising shareholders' value by concentrating its manufacturing processes in South East Asian's cheap labour markets. When the poor working condition of workforce in Asia was unravel by Western Media, Apple's share price declined, indicating that the fair treatment of the companies' external workforce has implications for the shareholders and the job securities of their internal workforce (their employees).

Comparisons with German and Japanese corporate governance mechanisms could be made in relation to "alternative outcomes". In these systems employees do have a voice and their views are counted if not directly taken into consideration. They are expected to make proposals as how employees views can be considered in decision making in an Anglo-Saxon structure – may be employees can have representatives in governance mechanisms, or codes of best practice can be modified so that their views can be considered.

2. How may alternative governance mechanisms lead to different outcomes?

Regarding alternative approaches to corporate governance we could note that stewardship theory would suggest that managers can act as stewards of the shareholders as include the interests of their workforce and turnaround the fortune of the company. Resource Dependence theory suggests that employees can be regarded as one of the most precious resource that companies have as they offer their wealth knowledge and expertise. Had Apple recognised the importance attached to the interest of their external workforce, they could have avoided the negative publicity that resulted in a decline in their share price. The formal representation of employees in Apple's corporate governance not only helps employees to engage with the company more but also allows their employees to reflect upon the implications of executive decisions on their welfare as well as those of the external workforce.

Explore Further

For a core text covering the models of corporate governance, see this book:

Tricker, R.I. (1984). *Corporate Governance*. Aldershot: Gower.

For a critique of the shareholder-value view of the firm and society from a well-known writer in the institutionalist school of thought, see this article:

Aglietta, M., and Rebérioux, A. (2005). *Corporate Governance Adrift. A Critique of Shareholder Value*. US: Edward Elgar Publishing.

To learn more about the inadequacy of the Anglo-Saxon governance mechanisms from the point of view of workers, see this article:

Sikka, P. (2008). Corporate Governance: What about the Workers? *Accounting, Auditing and Accountability Journal*, 21(7), pp. 955-977.

For a reprinted version of Friedman's classic defence of the principle behind the shareholder-value view of governance, see this book:
Friedman, M. (2007). The social responsibility of business is to increase its profits. In W. Zimmerli, M. Holzinger and K. Richter (eds.), *Corporate Ethics and Corporate Governance.* Berlin: Springer, pp. 173-178.

References

Aoki, M. (2001), *Toward a Comparative Institutional Analysis* (Cambridge, MA: MIT Press).

Argyis, C. (1964), *Integrating the Individual and the Organization* (New York: Wiley).

Armstrong, M. (2006), *A Handbook of Human Resource Management Practice* (London Kogan Page).

Berle, A.A., and Means, G.C. (1932), *The Modern Corporation and Private Property* (New York: Macmillan).

Beyer, J., and Hassel, A. (2002), "The Effects of Convergence: Internationalisation and the Changing Distribution of Net Value Added in Large German Firms", *Economy and Society*, 31/3: 309-332.

Blair, M. (1995), *Ownership and Control: Rethinking Corporate Governance for the 21st Century* (Washington: Brookings Institution).

Blair, M.M., and Roe M.J. (1999), *Employees and Corporate Governance* (US: The Brookings Institution).

Birch, A. (1967), *The Economic History of the British Iron and Steel Industry – 1784-1879* (US: Frank Cass).

Boxall, P., and Purcell, J. (2008), *Strategy and Human Resource Management*, 2nd ed. (Basingstoke: Palgrave Macmillan).

Burchell, G., Gordon, C., and Miller, P. (1991), *The Foucault Effect: Studies in Governmentality*, (Hemel Hempstead: Harvester Wheatsheaf).

Campbell, J.P., McCloy, R., Oppler, S., and Sager, C. (1993), "A Theory of Performance", in N. Schmitt and W. Borman (eds.), *Personnel Selection in Organizations* (San Fransisco: Jossey-Bass).

Cappelli, P., and Singh, H. (1992), "Integrating Strategic Human Resources are Firms' Core Competencies", *Organizational Dynamics*, winter: 7-22.

Clarke, T. (2007), *International Corporate Governance-A Comparative Approach* (Oxon: Routledge).

Clarke, T., and Boersma, M. (2017), "The governance of global value chains: Unresolved human rights, environmental and ethical dilemmas in the apple supply chain", *Journal of Business Ethics*, *143*(1): 111-131.

Council, F.R., and Britain, G., (2008), *The Combined Code on Corporate Governance, June 2008*. Financial Reporting Council.

Committee on Corporate Governance (1998), *Committee on Corporate Governance: Final Report*, London, Hampel Report (London: Gee).

Committee on Corporate Governance (2003), *Review of the Role and Effectiveness of Non-executive Directors*, The Department of Trade and Industry, Higgs Report (London: Gee).

Committee on the Financial Aspects of Corporate Governance (1992), *The Financial Aspects of Corporate Governance*, Cadbury Report (London: Gee).

Daily, C.M., Dalton, D., and Cannella, A. (2003), "Corporate Governance: Decades of Dialogue and Data", *Academy of Management Review*, 28: 371-82.

Davies, P.L. (2000), "Board Structure in the UK and Germany: Convergence or Continuing Divergence?", *International and Comparative Corporate Law Journal*, 2/4: 435-456.

Davis, J.H., Schoorman, F.D., and Donaldson, L. (1997), "Toward a Stewardship Theory of Management", *Academy of Management Review*, 22/1: 20-47.

Denis, D.K., and McConnell, J.J. (2003), "International Corporate Governance", *Journal of Financial and Quantitative Analysis*, 38/1: 1-36.

Donaldson, L., and Davis, J.H. (1991), "Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns", *Australian Journal of Management*, 16/1: 49-56.

Dore, R. (2000), *Stock Market Capitalism: Welfare Capitalism: Japan and Germany versus Anglo-Saxon* (Oxford: Oxford University Press).

EEC (1975), "Employee Participation in Company Structures in the E-European Community", Bulletin of the European Communities, European Economic Community, COM (75) 570 final, 12 November (Supplement 8/75).

Ehnert, I., Parsa, S., Roper, I., Wagner, M. and Muller-Camen, M. (2016), "Reporting on sustainability and HRM: a comparative study of sustainability reporting practices by the world's largest companies", *International Journal of Human Resource Management*, 27(1): 88-108.

Equality Trust (2017) Pay Tracker. Comparing Chief Executive Officer pay in the FTSE 100 with average pay and low pay in the UK. March. London, The Equality Trust https://www.equalitytrust.org.uk/sites/default/files/Pay%20Tracker%20%28March%202017%29_1.pdf. Downloaded Jan 3 2018.

Fox, A. (1966), *Industrial Sociology and Industrial Relations* (London, HMSO).

Freeman, R.E. (1984), *Strategic Management: A Stakeholder Approach* (Boston: Pitman Press).

Harcourt, M.., Wood, G. and Roper, I. (2007) The Importance of Legislated Employment Protection for Worker Commitment in Coordinated Market Economies, Journal of Economic Issues, XLI, 4, December, 961-980.

Greenbury Committee (1995), *Study Group on Directors' Remuneration (Final Report)*, (London: Gee).

Healy, C.N., and Palepu, K. (2001), "Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature", *Journal of Accounting and Economics*, 31: 405-440.

Hendry, K., and Kiel, G.C. (2004), "The Role of the Board on Firm Strategy: Integrating Agency and Organizational Control Perspectives", *Corporate Governance: An International Review*, 12/4: 500-520.

Hillman, A.J., Cannella, A.A., and Paetzold, R.L. (2000), "The Resource Dependence role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change", *Journal of Management Studies*, 37: 325-254.

Hiss, S. (2009), "From implicit to explicit corporate social responsibility: Institutional change as a fight for myths", *Business Ethics Quarterly*, *19*(3), 433-451.

Jackson, G., Hopner, M., and Kurdlebusch, A. (2004), "Corporate Governance and Employees in Germany: Changing Linkages, Complementarities, and Tensions", discussion paper, RIETI.

Jackson, G. and Moerke, A. (2005) "Continuity and Change in Corporate Governance: comparing Germany and Japan" Corporate Governance, 13(3): 351-361.

Jackson, G., and Miyajima, H. (2007), "Introduction: The Diversity and Change of Corporate Governance in China", in M. Aoki, G. Jackson and H. Miyajima (2007), *Corporate Governance in Japan: Institutional Change and Organizational Diversity* (Oxford: Oxford University Press).

Jensen, M.C., and Meckling, W.H. (1976), "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", *Journal of Financial Economics*, 3:305-360.

Keasey, K., Thompson, S., and Wright, M. (1997), *Corporate Governance: Economic, Management and Financial Issues* (USA: Oxford University Press).

Kersely, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G., and Oxenbridge, S. (2005), *Inside the workplace: first findings from the 2004 Workplace Employment Relations Survey* (London: DTI).

Kiel, G.C., and Nicholson, G.J. (2003), *Boards that Work: A New Guide for Directors* (Australia: McGraw-Hill).

Kirkbride, J., and Letza, S. (2003), "Establishing the Boundaries of Regulation in Corporate Governance: Is the UK moving toward a Process of Collibration?", *Business and Society Review*, 108/4: 463-485.

Laing, D., and Weir, C.M. (1999), "Governance Structures, Size and Corporate Performance in UK Firms", *Management Decision*, 37/5: 457-464.

Marchington, M., and Wilkinson, A. (2008), *Human Resource Management at Work People Management and Development* (London: CIPD).

Mallin, C. (2007), *Corporate Governance* (Oxford: Oxford University Press).

Muth, M.M., and Donaldson, L. (1998), "Stewardship Theory and Board Structure: A Contingency Approach", *Corporate Governance*, 6/1: 5-28.

OECD (2004), *OECD Principles of Corporate Governance* (Paris: OECD Publications Service).

Schuler, R.S., and Jackson, S.E. (2007), *Strategic Human Resource Management* (London: Blackwell Publishing).

Parsa, S., Muller-Camen, M. and Maurer, I. (2018a). Labour and Human Rights Reporting Practices: A comparative study of British and German companies, working paper, Middlesex University, London.

Parsa, S., Roper, I., Muller-Camen, M. and Szigetvari, E. (2018b), "Have labour practices and human rights disclosures enhanced corporate accountability? The case of the GRI framework", *Accounting Forum*, forthcoming.

Pass, C. (2006), "The Revised Combined Code and Corporate Governance: An Empirical survey of 50 Large UK Companies", *Managerial Law*, 48/5: 18-27.

Pfeffer, J., and Cohen, Y. (1984), "Determinants of Internal Labour Markets in Organizations", *Administrative Science Quarterly*, 29: 550-72.

Sheik, S., and Rees, W. (1995), Corporate Governance and Corporate Control. Great Britain: Gavendish Publishing Limited.

Sheridan, T., and Kendall N. (1998). *Corporate Governance: An Action Plan for Profitability and Business Success* (London: Pitman Publishing).

Shishido, Z. (2000), "Japanese Corporate Governance: The Hidden Problems of the Corporate Law and their Solutions", *Delaware Journal of Corporate Law*, 25/2: 189-233.

Shleifer, A., and Vishny, R.W. (1997), "A Survey of Corporate Governance", *The Journal of Finance*, LII/2: 737-783.

Sikka, P. (2008), "Corporate Governance: What about the Workers?", *Accounting, Auditing and Accountability Journal*, 21/7: 955-977.

Sikka, P. (2011). Accounting for human rights: The challenge of globalization and foreign investment agreements. *Critical Perspectives on Accounting*, 22(8), 811-827.

Smallman, C. (2004), "Exploring Theoretical Paradigms in Corporate Governance", *International Journal of Business Governance and Ethics*, 1/1: 78-94.

Solomon, J. (2013), *Corporate Governance and Accountability*, (Sussex: John Wiley & Sons).

Starkey, K. (1995), "Opening up Corporate Governance", *Human Relations*, 48/8: 837-884.

Sternberg, E. (1997), "The Defects of Stakeholder Theory", *Corporate Governance: An International Review*, 5/1: 3-10.

Stiles, P., and Taylor, B. (2001), *Boards at Works: How Directors view their Roles and Responsibilities* (Oxford: Oxford University Press).

Spira, L.F. (2001), "Enterprise and Accountability: Striking a Balance", *Management Decision*, 39/9: 739-748.

Sundaramurthy, C., and Lewis, M. (2003), "Control and Collaboration: Paradoxes of Governance", *Academy of Management Review*, 28/3: 397-415.

Thelen, K. and Kume, I. (2001) The rise of nonliberal training regimes: Germany and Japan compared in Streek, W. and Yamamura, K. (eds) The Origins of Nonliberal Capitalism. Germany and Japan in Comparision. Ithica, Cornell University Press, pp. 200-228.

Thompson, S.(2005), "The Impact of Corporate Governance Reforms on the Remuneration of Executives in the UK", *Corporate Governance: An International Review*, 13/1: 19-25.

Tricker, R.I. (1984), *Corporate Governance* (Aldershot: Gower).

Ulrich, D. (1998). A new mandate for human resources. Harvard Business Review, 76, 124-135.

Wates Corporate Governance Principles for Large Private Companies (2018), Financial Reporting Council, London.

Walton, R.E. (1985), "From Control to Commitment in the Workplace", *Harvard Business Review*, 63: 77-84.

Wedderburn, B. (2004), *The Future of Company Law: Fat Cats, Corporate Governance and Workers* (UK: The Institute of Employment Rights).

Weinberg, J.A. (2003), "Accounting for Corporate Behaviour", *Economic Quarterly*, 89/3: 1-20.

Zahra, S.A., and Pearce, J.A. (1989), "Boards of Directors and Corporate Financial Performance: A Review and Integrative Model", *Journal of Management*, 15/2: 291-334.