MARTIN HILB

New Corporate Governance

Successful Board Management Tools

Third Edition

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ON THE CONTENT

Corporate governance is currently one of the few subjects that is topical for both research and practice, globally.

In this book, Martin Hilb introduces a new, integrated approach to corporate governance that attempts to overcome weakness in current research, teaching and practice.

"New Corporate Governance" is based on a reversed KISS principle:

Situational	Targeted adaption of Corporate Governance practices to suit the (often-neglected) context of the company
Strategic	Strategic direction of the company as a central board function, alongside the (often-dominant) monitoring function
Integrated	Integrated selection, evaluation, remuneration and development of the board teams, instead of isolated Nomination- and Remuneration Committees
Keep it controlled	Holistic board review from the perspectives of shareholders, customers, employees and the public, instead of purely financial controlling

This approach to directing and controlling companies integrates components of corporate governance that have historically been treated in isolation of each other in research, teaching and practice.

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Third Edition

Martin Hilb

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Successful Board Management Tools

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Contents

Foreword ... **vii**

Part 0 Introduction ... **1**
- 0.1 Background ... 3
- 0.2 Objectives ... 7
- 0.3 Approach ... 8
- 0.4 Definition of Terms ... 9
- 0.5 The "New Corporate Governance" Framework ... 11

Part 1 Situational Dimension ... **15**
- 1.1 External Business Context ... 18
  - 1.1.1 Institutional Context ... 18
  - 1.1.2 National Context ... 21
  - 1.1.3 Normative Context ... 27
- 1.2 Internal Business Context ... 35
  - 1.2.1 Ownership ... 36
  - 1.2.2 Board Configuration ... 47
  - 1.2.3 Organizational Complexity ... 54
  - 1.2.4 Board Role Players ... 56
  - 1.2.5 Degree of Internationalization ... 61
  - 1.2.6 Mix of Board Functions ... 67

Part 2 Strategic Dimension ... **73**
- 2.1 Targeted and Diverse Board Team Composition ... 76
- 2.2 Critical but Constructive Culture of Trust ... 90
- 2.3 Networked Board Structure ... 95
- 2.4 Stakeholder-Oriented Board Success Measures ... 98

Part 3 Integrated Board Management Dimension ... **107**
- 3.1 Targeted Selection of Board Members ... 111
- 3.2 Targeted Feedback for Board Members ... 121
- 3.3 Targeted Remuneration of Board Members ... 131
- 3.4 Targeted Development of Board Members ... 143
- 3.5 Integrated Board Management Committees for Large Firms ... 151

Part 4 Controlling Dimension **155**
4.0 Integrated Audit & Risk Management Committee 157
4.1 Auditing Function of the Board 161
4.1.1 Cooperation with the External Auditors 163
4.1.2 Cooperation with the Internal Auditors 163
4.2 Risk Management Function of the Board 164
4.3 Communication Function of the Board 172
4.3.1 Internal Communication Between Board and Management 172
4.3.1.1 Objectives of Board Communication Policy 173
4.3.1.2 Board Communication Strategy 174
4.3.1.3 Board Communication Tools 176
4.3.2 External Communication Between Board and Stakeholders 180
4.4 Review of Board Success 183
4.4.1 Controlling Function of the Board 184
4.4.2 Self- and External Evaluation of the Board 187
4.4.2.1 Goals of Board Review 188
4.4.2.2 Instruments for Self- and External Review of Boards 189
4.4.2.3 Procedure for Self- and External Evaluation of Boards 200

Part 5 Conclusions **205**
5.1 Implications for Practice 207
5.2 Implications for Teaching 208
5.3 Implications for Research 208

References **211**

Index **225**

Foreword

Twelve years ago, I started to offer annual doctoral seminars in corporate governance and seminars for chairpersons and members of boards at the University of St. Gallen. In 1995, I published an "Integrated Board Management" concept and suggested that the board has to be developed as a team responsible for directing and controlling an organization (see level 4 in Fig. F-1).

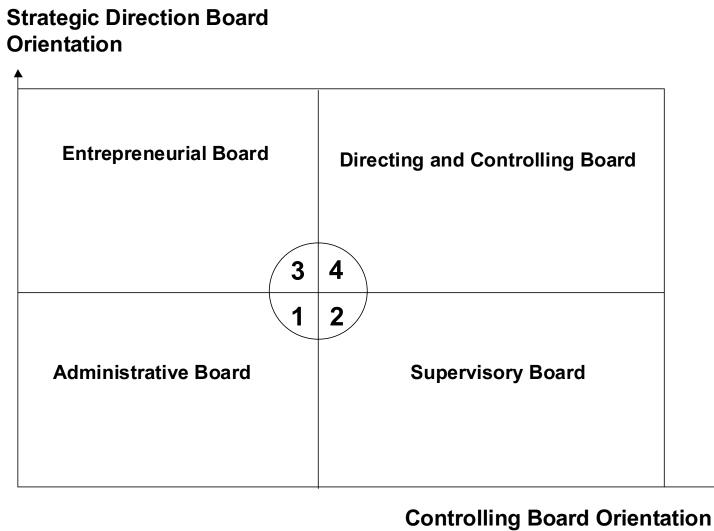

Fig. F-1. Development levels of boards

It is a great pleasure to publish the third English-language edition of this book within just less than three years. I thank the readers for their valuable feedback on the second version.

Since then, the subject of corporate governance has become highly topical worldwide because of the many corporate crises that have occurred – in

both countries that promote shareholder-value governance approaches[1] (such as the United States or Australia) and countries that strive for stakeholder-value governance approaches[2] (such as Germany or Japan).

Depending on the value system prevailing in a particular country or context, corporate governance has been seen to deal with "the protection of shareholders rights or... the rights of all, or at least a part of the stakeholders." [3]

In research as well as in practice, the common assumption is that there are just "two basic models of corporate governance systems: the first model is the Anglo-American 'market based' model, which emphasizes the maximization of shareholder value, while the second model is the 'relationship-based' model, which emphasizes the interests of a broader group of stakeholders."[4]

In this book however, I introduce a third way – "New Corporate Governance" that integrates the strengths of both approaches. I thereby avoid the traditional question of which approach should be used as a basis for corporate governance: the widely used, Anglo-American, shareholder-value approach or the stakeholder-value approach, which is found in a variety of forms.

I propose a both-and, glocal approach. In other words, I adopt both the global relevance of aspects of the Anglo-American board best practice (exemplified in Canada, New Zealand and Great Britain and adopted sometimes with little or no critical analysis in developing nations[5]), and the local governance best practices evident in the approaches adopted by many international firms operating in countries around the world. Companies only generate enduring success if they add value in all their activities for shareholders, customers, employees and society. Thus it is important for

---

1 See Rappaport (1986) and Stewart (1991).

2 See Freeman (1984:31), wherein stakeholders are defined as: "those groups without whose support the organization would cease to exist."

3 Wentges (2002:74).

4 Tabalujan in Hasan (2002:488). See also the definition of corporate governance proposed by Shleifer and Vishny (1997:737) for an example of a pure shareholder model and Preston and Donaldson (1995) for a discussion of stakeholder orientations.

5 See Ahunwan (2003).

each board to determine the manner in which stakeholders share in firm success, according to that firm's requirements. For example,

- 50% shareholder value added (based on EVA)[6]
- 20% employee value added
- 20% customer value added
- and 10% public value added.

In each case, the requirements, the satisfaction and the voluntary loyalty of these stakeholder groups could be measured periodically, using an integrated feedback toolkit, for example.[7]

In response to the growing interest in corporate governance, I founded the IFPM Center for Corporate Governance, in order to focus my research, teaching and consulting activities in a targeted way using this integrated approach (see www.ccg.ifpm.unisg.ch).

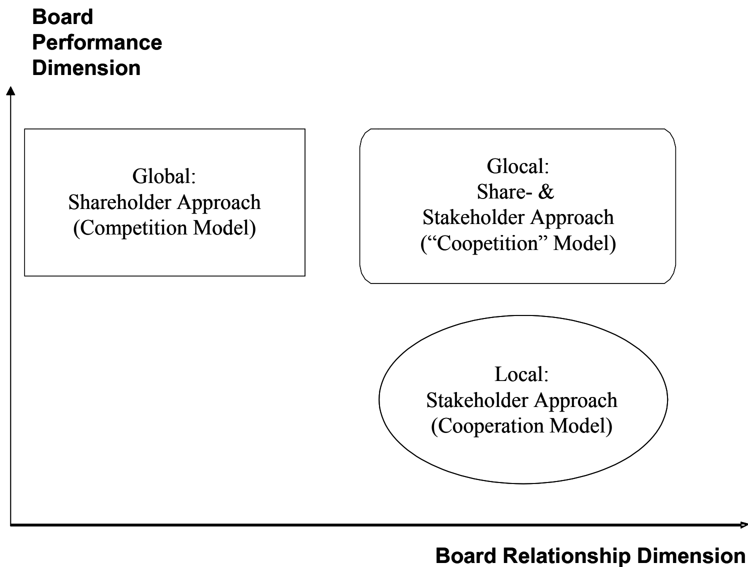

Fig. F-2. Models of corporate governance

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6 See Stewart (1991).
7 Such as that developed by Hilb (2003).

This book has been published in several languages:

3rd edition New York 2008	3rd edition Berlin 2008	2nd edition Saigon 2007	1st edition Buenos Aires 2007	1st edition Beijing 2008

This year the following new versions will be published:

- Portuguese: 1st edition, Sao Paolo 2008
- Russian: 1st edition, Moscow 2008

I would like to thank all the people who made contributions to the completion of these book versions. Firstly, I thank the chairpersons who have given me the mandate to implement new board concepts and carry out board evaluations on their behalf. Secondly, I thank the numerous participants on our board management seminars, board network workshops and annual doctoral seminars on corporate governance at the University of St. Gallen, for the many valuable contributions.

Special thanks go to the following academics and associates of our Institute: Professor Roman Lombriser for his valuable remarks; Ursula Knorr, for critically checking and professionally styling the original version of this book; Tudor Maxwell, for competently shaping the first English edition; and Julia Ramlogan for revising and editing the second and third English editions.

Special thanks also go to all those individuals who prepared other versions of this book into other languages:

- Ms Manli Fu (Chinese);
- Prof. Trung Dinh (Vietnamese);
- Ms Erica Maidana (Spanish).

Last but not least, I would like to thank Dr. Werner A. Müller of Springer Publishers for his valuable support with the simultaneous publication of both the English and German versions of this book.

St. Gallen, May 1, 2008 *Martin Hilb*

PART 0

Introduction

0.1 Background

In recent years, the topic of corporate governance has gained prominence as a result of the large number of attention-grabbing corporate scandals at the board level. What was formerly a topic of interest to academics has become a burning issue worldwide for researchers and practitioners alike.

- In **practice**, there seem to be four reasons that account for the public crisis of confidence – about the economy in general and about chairpersons and CEOs in particular.[8]

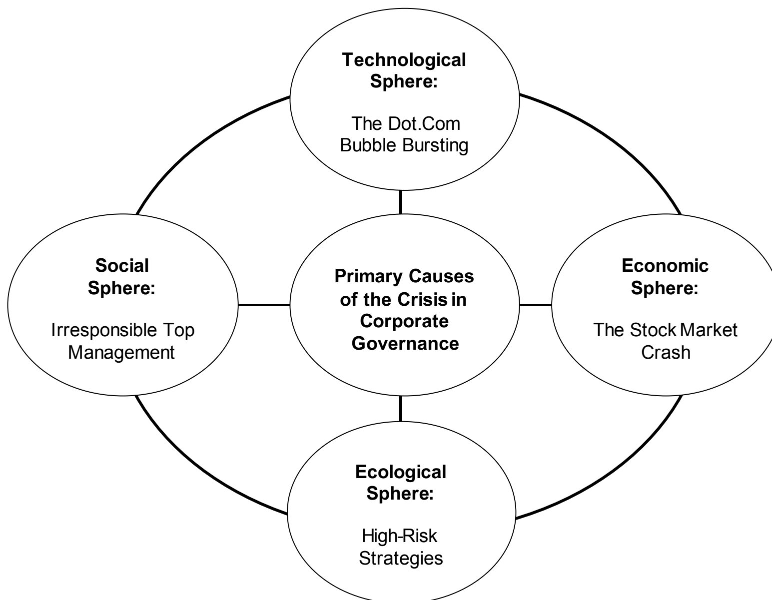

Fig. 0-1. Primary causes of the crisis in corporate governance

1. **In the technological sphere**, the main driver of the corporate governance crisis was the bursting of the dot.com bubble. The speculation on stock markets in high-tech companies throughout the world led, according to Alan Greenspan, to "irrational exuberance." Although the internet undoubtedly resulted in a technological breakthrough, it was assumed that the internet invented a new business model, "which it didn't. It is a tool that companies can use to build

[8] Taylor (2003:1).