

# CORPORATE GOVERNANCE AND ETHICS

Sven-Olof Collin

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## Sven-Olof Yrjö Collin

- Professor in Business Administration with emphasis on Corporate Governance and Accounting
  - Teach in corporate governance, accounting, management control, corporate finance, strategy, scientific method and supervise on all levels.
  - Research in corporate governance, for example riding schools, municipal corporations, family firms, but also director and executive compensation, accounting choice, auditing, duty.
- E-mail: [sven.olof.collin@lnu.se](mailto:sven.olof.collin@lnu.se)  
Homepage: [www.svencollin.se](http://www.svencollin.se)  
Phone: not in use  
Crisis: 0708 204 777

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## EXAMENSARBETE

<http://www.svencollin.se/Method.htm>

Ämne: Hemsidan, gamla uppsatsers sista kapitel, ämnen på kursen

Grupparbete 2 st (max och min)

Schema november

Kontakta mig eller Magnus, Andreas, Anna, Jenny

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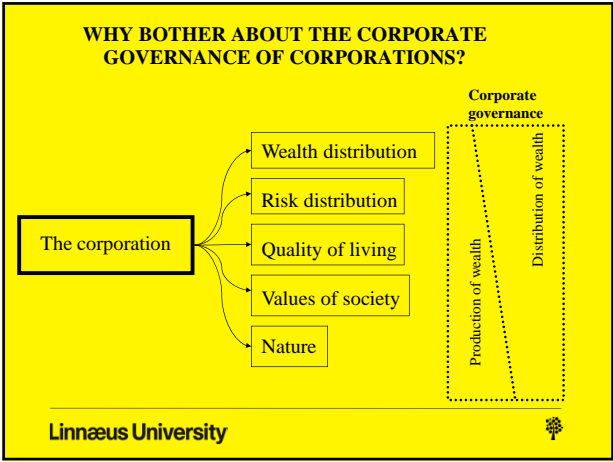
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### CORPORATE GOVERNANCE

...a set of mechanisms that support the fulfilment of the will of the principal.

**SCIENTIFIC PROBLEM**  
 Problem 1: Who is the Principal?  
 Problem 2: What is the Will of the Principal?

**POLITICAL & NORMATIV PROBLEM**  
 Problem 1: Who should be the Principal?  
 Problem 2: What should be the Will of the Principal?

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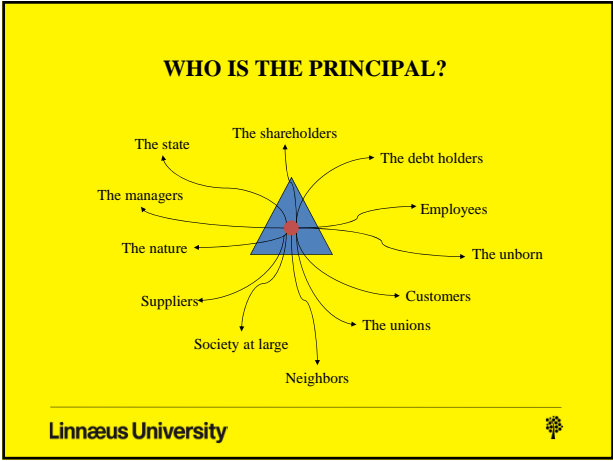
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## CULTURAL DIFFERENCES

Wieland (2005)

Model	Maximization	Economizing	Cooperation
Character of the Corporation	Autonomous		Dependent
Principal	Shareholder		Stakeholders
Governance focus	Monitoring		Negotiations
	Conflict		Resources
Theory	Agency theory		Stakeholder theory
Countries	Switzerland, Sweden, Finland, UK, Ireland, etc.	Denmark, Netherlands, Spain, etc.	Austria, Germany, France, Italy etc.

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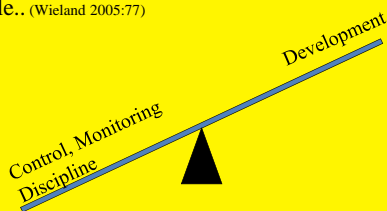
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## FOR THE FUTURE, REMEMBER...

"...any efficient and effective governance structure needs to serve two functions: to constrain and to enable.. (Wieland 2005:77)



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## CORPORATE GOVERNANCE

To satisfy the will of the principal

Ask not what your corporation can do for you - ask what you can do for your corporation

(travesty of J. F. Kennedy Inaugural Address 20 January 1961)

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## WHY DO WE ACT?

What's in it for Me,  
Me  
and  
Me?  
/ I

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## MOTIVATION TO ACT

**Self-interest:** An individual act upon a calculus where the costs and benefits for the individual are summed together through a preference function into a utility which produce the action  
*Agency theory, The shareholder*

**Belongingness:** An individual act in order to belong to a group, and over time adjusts to the norms of the group through accepting them or internalization  
*Stakeholder theory/Stewardship theory, The stakeholders*

**Duty:** An individual perform an action because the individual consider the action to be obligatory.  
*Not yet developed, The imperative*

**Care:** An individual act towards those that the individual have a close relationship with care, considering the concrete individual and tries to understand the needs through empathy.  
*Feminist ethics, Closely related*

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## THE FEMINIST CORPORATE GOVERNANCE MODEL

- |   |  |
|---|--|
| - The firm is a web of relationships  | Nexus of contract,<br>transaction costs minimization |
| - Obligation to care, based on the need of the other  | Profit maximization<br>Stakeholder satisfaction      |
| - Priority are given to those with a close relationship or former relationship, where the relation is with a concrete other, considering their individuality and identity | Dependency and power<br>Categories of individuals    |

*not a normative model, not an empirical model, but an Ideal type, describing a set-up and principles that are connected logically, but maybe not empirically, but elements can be found in existing organizations*

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## THE SHAREHOLDER IS A VICTIM FOR AGENT MISCONDUCT

The agent is

- opportunistic
- exploit information asymmetry
- cheat and steals
- lazy

The principal is

- exploited
- endure agency costs
- have to slave with monitoring
- have to slave with fiat

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## SHAREHOLDER MISCONDUCT: THE BAD LOSER

Right to influence the corporation  
Right to the residual  
Right to sell these rights

*Any liability...?*

Liable for the debts until the share capital is consumed

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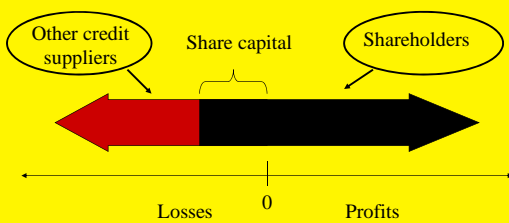
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## LIMITED LIABILITY



- Asymmetric distribution of the residual
- Socialisation of risk

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## THE MORAL DILEMMA

**The Causality Principle:**  
*Thou shalt be liable for the consequences of thy actions*

**The Symmetry Principle:**  
*Such as enjoy the benefits shalt suffer the losses*

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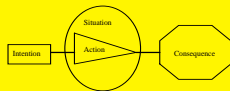
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## A MORAL OF CONSEQUENCES



### Prerequisites for a moral of consequences:

#### The Situation

- Predictability of consequences

#### The Individual

- Executability of the action
- psychological limitations
- ideological limitations

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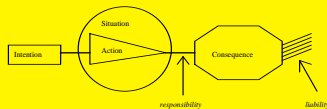
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## SEPARATION BETWEEN THE INDIVIDUAL AND THE ACTION



### VICARIOUS ACTION

#### Prerequisite:

- The Principal controls the Agent.

### COLLECTIVE ACTION

- Organic group with solidarity
- Serial group with congruent interests

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**MORAL ACTIONS WHEN FACING RISK OR UNCERTAINTY**

**Competence**

*Moral Action Number One:* Employ managers of the firm

**Control**

*Moral Action Number Two:* Engage the other credit suppliers in the control of the corporation

**Limited liability for other credit suppliers regarding profit**

*Moral Action Number Three:* Excess Profit distributed to credit suppliers, or to the Art.

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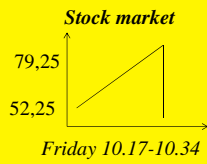
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**WHO TO BLAME?  
WHO ASSUME CONSEQUENCES?**

*Groucho Marxets*

*Cision*



*Fingerprint Cards*

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**WHY DO WE ACCEPT THIS  
MORAL MISCONDUCT?**

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## GLOBAL RESPONSIBILITY

### Corporate Social Responsibility (CSR)

All humans, All nature, Today, Future

To act in accordance to laws, social norms, ethical standards: legality, fairness and justice

fad ..... legitimacy .....strategically integrated

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## THE CORPORATION AS AN IDEAL

### Corporatisation

- Outside pressure: Competitive capacity
- Inside pressure: Rationalisation

### Privatisation

- Political causes: Private property superiority
- Institutional causes: Fashion
- Economic causes: Specialisation

The end of class struggle?  
Meritocracy

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## THE AIM AND THE GOVERNANCE OF THE CORPORATION

AIM	AGENT OF GOVERNANCE
Profit	Shareholder
Wealth	Stakeholders
Democracy	Politicians
Ecological Sustainability	Scientists
Happiness	Clowns

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