



Corporate Governance Bundles: UK vs France

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Introduction

Context and motivation for the topic



GDP in Europe

Usual ownership

Legal System

Trade Unions

Second

Dispersed

Common Law

Weak

Third

Concentrated

Civil Law

Strong

What kind of GC practices and bundles work on the countries?

Looking at the overall picture with a case company

How has GC evolved in these countries and how will it develop in the future?

Introduction

Insider – Outsider –national models for GC (Garcia-Castro et al. 2013)

Insider model

Common Characteristics

- Concentrated ownership structures
- Families, banks and employees are more invested in companies with a long-term focus
- More protected employees, who enjoy longer careers within a single firm

Typical GC mechanisms

- CEO in the BoD
- Internalizing employees within the management
- Less profit-linked management compensation schemes

Outsider model

Common Characteristics

- Strong share-holder value orientation
- Common law tradition
- GC Practices centered towards outside, dispersed investors
- Weaker employee protection and collective bargaining

Typical GC mechanisms

- Board Independence
- Information Disclosure
- Remuneration Disclosure
- Management compensation more linked to profits

These models can be further divided to more specific types

GC should be adjusted appropriately to fit these models, but single mechanisms won't have an effect – They have to be done in bundles

France and UK Corporate Governance

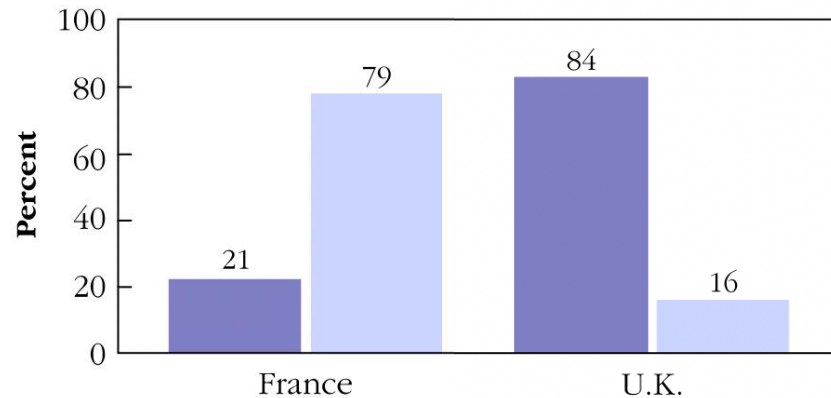
DIVERGENT CHARACTERISTICS

FRENCH FIRMS HAVE MORE CHARACTERISTICS OF INSIDER MODEL

UK FIRMS HAVE MORE CHARACTERISTICS OF OUTSIDER MODEL

FIGURE 3
PERCENT OF OWNERSHIP
OF A SAMPLE OF FRENCH,
GERMAN, AND U.K.
QUOTED COMPANIES
(PERCENT)

■ Widely Held
■ With Major Shareholder



UK firms has relatively dispersed ownership, fueled by strong minority shareholder protection and highly liquid capital market (Aguilera, 2016)

French firms predominantly have major shareholders, usually owned by families or banks (Franks, 1997)

Self-regulatory Corporate Governance Code - AFEP-MEDEF code (Haxhi and Aguilera, 2016)

Highly legitimized Code process – The UK Corporate Governance Code (Haxhi and Aguilera, 2016)

The French corporate governance systems are characterized by the high alignment between owners and managers, other CG mechanism are substituted (Franks, 1997) (Weimer & Pape, 1999)

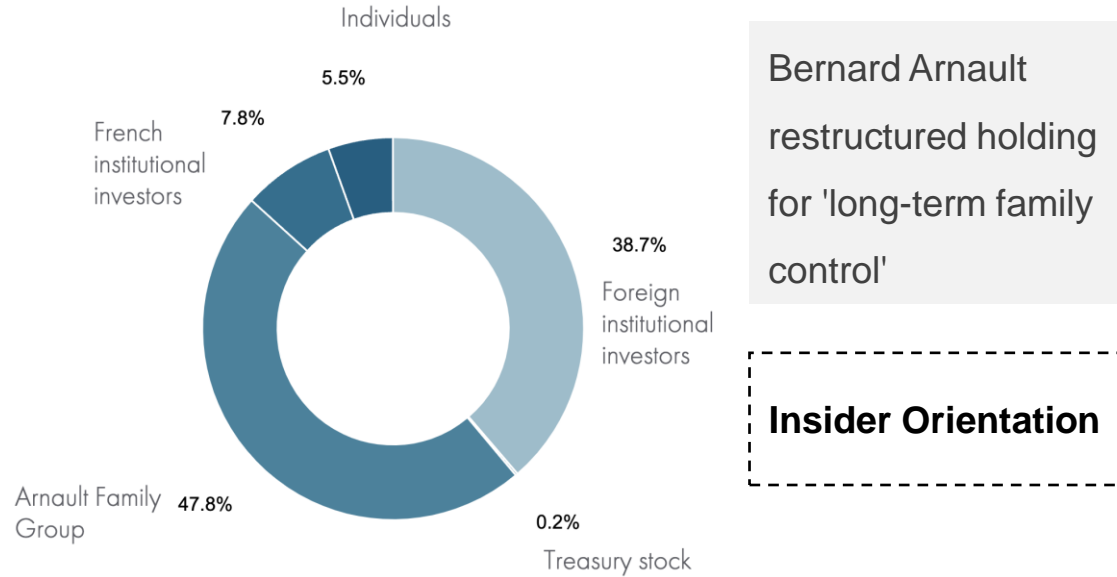
The UK corporate governance systems are based on broad interdependencies between performance incentives within executive remuneration, information disclosure, board independence, and the market for corporate control (Franks, 1997) (Weimer & Pape, 1999)

Case companies

OWNERSHIP STRUCTURE



LVMH HAS PREDOMINANT FAMILY OWNERSHIP MIXED WITH INSTITUTIONS

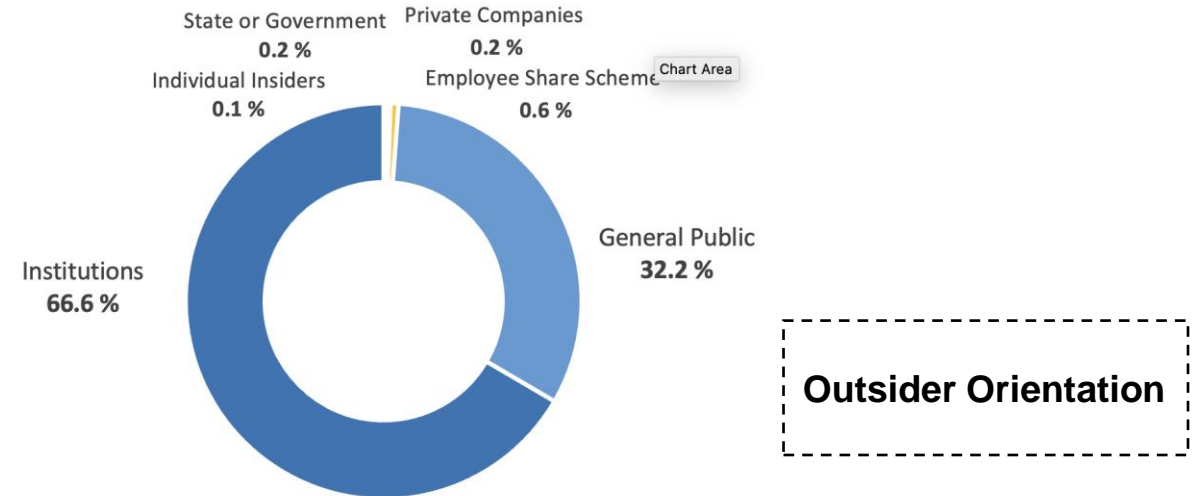


Shareholders	Ownership
Christian Dior SE	41.59 %
Financière Agache Société Anonyme	6.20 %
Capital Research and Management Company	2.98 %
BlackRock, Inc.	2.53 %
Groupe Arnault SAS	2.04 %
The Vanguard Group, Inc.	1.96 %
Le Peigne SA	1.90 %
Norges Bank Investment Management	1.09 %
FMR LLC	1.02 %
Amundi Asset Management	0.72 %

Concentrated Ownership

BURBERRY

BURBERRY HAS PREDOMINANT INSTITUTIONAL OWNERSHIP MIXED WITH INDIVIDUALS



Shareholders	Ownership
Lindsell Train Limited	9.65 %
Massachusetts Financial Services Company	8.75 %
Schroder Investment Management Limited	5.01 %
The Vanguard Group, Inc.	4.39 %
Baillie Gifford & Co.	4.24 %
T. Rowe Price Group, Inc.	3.55 %
Artemis Investment Management LLP	2.82 %
Legal & General Investment Management Limited	2.25 %
State Street Global Advisors, Inc.	1.82 %
Schroder Investment Management NA Inc.	1.80 %

Dispersed Ownership

Case companies: LVMH and Burberry

BOARD OF DIRECTORS

LVMH HAS STRATEGIC BOARD OF DIRECTORS

Board of Directors



Bernard ARNAULT
Chair
Since about 34 years

Other directorships >

16 voting members
and 2 non-voting



■ Independents ■ Executives ■ Employees representatives ■ State representatives ■ Other

Directors average seniority

13.9 years

15.6 years for elected by shareholders

Directors average age

63.4 years

63.3 years for elected by shareholders

Chair and CEO roles are combined:

Is there a Lead Independent Director? **Yes**

Is the Nomination committee Chair independent? **Yes**

Is there a 2/3 majority of independent Directors in the Audit Committee? **Yes**

Two other Arnault Family members sit in the board

The role of the board of directors is less likely to focus on monitoring, but more on company's strategies

The directorship is more stable, with lower director turnover and less associated with financial performance

Insider Orientation, Less Independence

BURBERRY HAS MONITORING BOARD OF DIRECTORS

Board of Directors



Gerry MURPHY
Chair
Since over 4 years

Other directorships >

12 voting members
without any non-voting



■ Independents ■ Executives ■ Employees representatives ■ State representatives ■ Other

Directors average seniority

4 years

4 years for elected by shareholders

Directors average age

62.3 years

62.3 years for elected by shareholders

Chair and CEO roles are separated:

Is there a Senior Independent Director? **Yes**

Are all of the Audit Committee members independent? **Yes**

Half of independent members in the Board? **Yes**

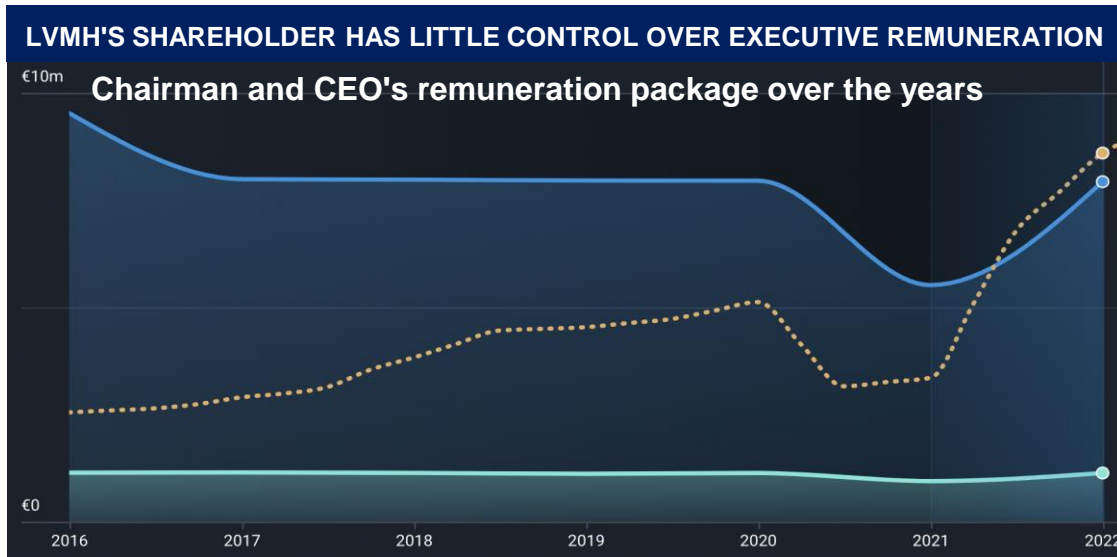
The role of the board of directors is more likely to focus on monitoring, and less on company's strategies

The directorship is less stable, with higher director turnover and more associated with financial performance

Outsider Orientation, More Independence

Case companies: LVMH and Burberry

EXECUTIVE COMPENSATION

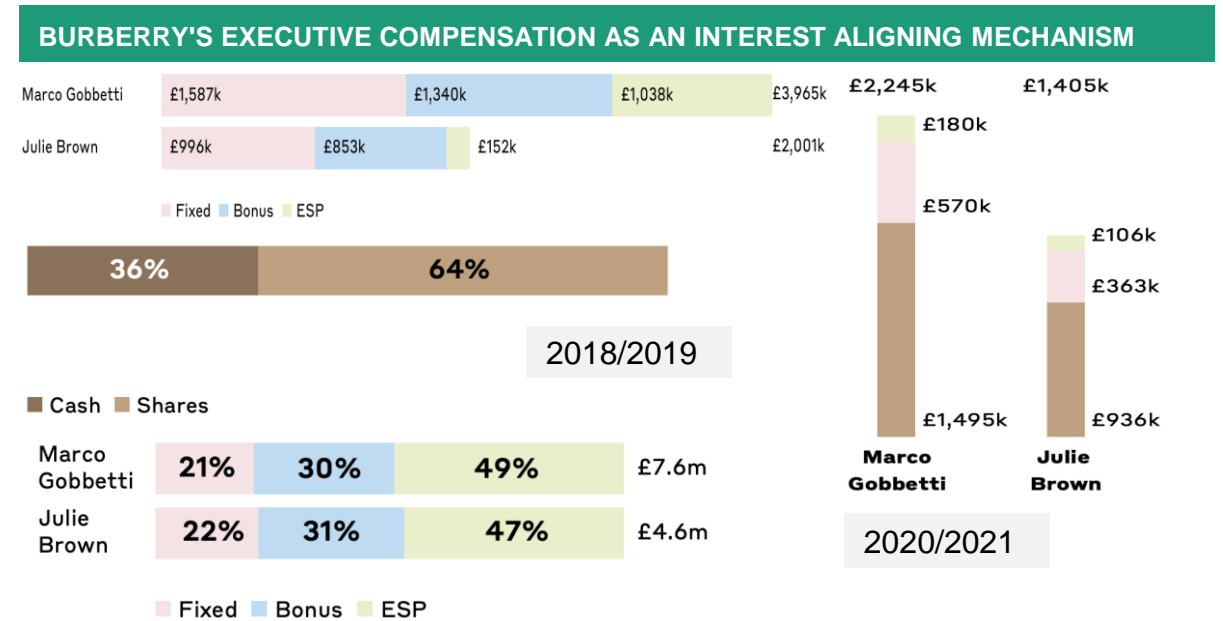


A significant proportion of remuneration package is variable pay, which closely linked to company's performance in recent years. The fixed pay is stable over the years.

CEO at LVMH is paid well over the median remuneration package for CEO in the same-sized companies (€3.3m)

As the CEO already controls over 47% shares of the company, his compensation less likely aims at aligning interests.

Minor shareholders have little control over CEO's remuneration since 61% voting rights are in the hand of Arnault Family



A significant proportion of maximum total remuneration is linked to stretching performance targets (PBT growth, revenue growth, ROIC)

The majority of total remuneration is delivered in shares to drive alignment between Executive Directors and shareholders

Executive compensation is used as a market solution to align executives and shareholders' interests and avoid shirking.

Shareholders can influence executive remuneration through remuneration committee, led by independent board director

Case companies: LVMH and Burberry

CORPORATE GOVERNANCE BUNDLES OVERVIEW

LVMH HAS INSIDER-ORIENTED CORPORATE GOVERNANCE BUNDLES

Insider oriented and concentrated ownership

Horizontal (majority vs minority) agency problems

Family ownership as an internal governance mechanism

Board of Directors, with CEO as the Chair, focus on strategic goals and less distracted by monitoring tasks

Executive Remuneration is performance-based, but determined by insiders

Information Disclosure is required by AFEP-MEDEF code, but limited to some extents

With control within the firm and high alignment of interests between owner and manager, over the last three years LVMH has grown its EPS by 21% per year and provided a total return of 142% to shareholders.

This remarkable performance leads to strong shareholder's support for the CEO and its insider oriented CG practices

BURBERRY HAS OUTSIDER-ORIENTED CORPORATE GOVERNANCE BUNDLES

Outsider oriented and dispersed ownership

Vertical (owners vs managers) agency problems

Market control as an external governance mechanism

Board Independence is emphasized at high level, focusing on monitoring management

Executive Remuneration is performance-based and delivered in shares; for interest's alignment

Information Disclosure is required at high level, on firm's CG practices and financial auditing

Complementaries

Heavily relied on financial market, Burberry is under pressure to perform this CG bundle. Recent years, shareholders have influenced board directors' decisions, pushed CEO turnover in bad year and rejected some remuneration packages, which enhanced CG practices and improved firm's performance

Looking back

Historical developments of GC – Path dependency

France	UK
Jean-Baptiste Colbert, 17th century: Social Colbertism gave an idea of an economy that should serve the State	The South Sea Bubble scandal in 1720 collapsed the market and created a distaste for the company form of business
John Law, 18th century: Weak capital and banking structure led to a significant reliance on self-financing	Until 1844 joint stock companies were permitted in the U.K. only by Act of Parliament and 1855 limited liability was granted to all registered companies
Abolishment of primogeniture in 1790 led to educated ancestors and created a strong base for family-ownership	Strong family ownership until the final years of the nineteenth century
During the later half of the 20th Century privatizations of state entities occurred	In the 1950s and thereafter, large British companies paid more attention to their organizational structures and sought to develop increasingly sophisticated managerial hierarchies

Transformation: Looking Forward



- Looking at recent events, trends and regulatory changes to predict future developments in both countries
- Using Garcia-Castro et al. (2013) paper frameworks CG practices on individual level in the analysis to determine the direction of each aspect and on an overall level and find a general direction of transformation
- Minor use of the path dependency aspect: How will the past influence the future?
- Predicting the future is hard -> We are limited in our capacity to draw “for sure” conclusions

Event	Possible causalities
Stellantis CEO Case (Backlash against excessive compensation in France)	Lower performance related compensation, companies willing to disclose less, more transparency demands
Hamburg port privatization (European interdependency concerns)	EU wide protectionism, hinderances to financial markets integration and development of strong markets for corporate control
Backlash against UK CG and Audit reforms Authorities backing down	British state and regulatory bodies remaining weak and relying on soft regulation
UK removing bankers bonus cap	Performance based compensation models strengthening due to softer regulation

Transformation: The three key factors

Development path	Reason	Outcome prediction
Integration of financial markets	International investors	Expectations for more standardized regulation and CG practices, such as demands for transparency. Convergence of different national systems. Strengthened market for corporate control.
France's influence on EU and vice versa	European sovereignty - policy, global crises, Macron's power	Possible hinderances to the strengthening of French market for corporate control due to "protectionist" attitudes in the Union. Stricter ESG related regulation in the Union.
The ESG trend	The attention gained by ESG	Greater stakeholder and employee recognition and protection. Greater transparency and perhaps additional regulation. Increased employee loyalty. Higher board independence. Further remuneration disclosure demands, with possible discourse against excessive compensation

Transformation: Garcia-Castro et al. (2013) framework

Garcia-Castro et al. (2013) practice:	 Great Britain	 France
Board independence	May be further driven by ESG concerns and scientific research findings	
Information disclosure	Growing stronger towards outsider orientation due to soft regulation, integration of financial markets and ESG.	Growing stronger because of the integration of financial markets and ESG.
Remuneration disclosure		
Performance related compensation	Likely to remain high, but may be hindered because of new remuneration disclosure regulation	Trending down as “excessive” compensation is continuously less tolerated by stakeholders
Employee loyalty	Possibly slowly growing due to the ESG trend	Growing due to the ESG trend
Efficient market for corporate control	Growing stronger towards outsider orientation because of financial markets integration and stronger soft regulation.	Possibly little to no change due to the EU protective stance (weakening effect) and financial market integration (strengthening effect).
Overall direction	Outsider orientation strengthening, with some stakeholder views considered	Slowly developing towards a more outsider orientation with emphasis on ESG and influence over EU