CORPORATE GOVERNANCE IN ECONOMIC DECISION MAKING:
A BEHAVIORAL PERSPECTIVE ON AGENCY

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CONTENT

• SETTING THE SCENE

• THE PROBLEM: AGENCY IN CORPORATE GOVERNANCE

• CORPORATE GOVERNANCE

• CONTRIBUTION?

• DISCUSSION

CREATING TOMORROW
SETTING THE SCENE: ABN AMRO AS A DUTCH TRAGEDY
AGENCY, HABIT AND INSTITUTIONS

• CENTRAL ISSUE IN SOCIAL SCIENCES

• NORMATIVE ISSUES: ROLE OF SELF INTEREST, INFORMATION, GROUPS, INSTITUTIONS

• SIMPLICITY IS DOMINANT: PRINCIPAL-AGENCY THEORY (METHODOLOGICAL REASONS?)

• DESCRIPTIVE ISSUES: AGENCY ON WHICH LEVEL, FOR WHOM, IMPACT?
CORPORATE GOVERNANCE AND AGENCY?

- 'Owner'/shareholder
  - Financial Advisor
  - Institutional Investor
  - Fund Manager
  - Board of Directors

CEO

Start-up

-> Institutions? Stakeholders, society at large?
AT LEAST TO DOMINANT PERSPECTIVES, NEXT TO AGENCY, NEO-CLASSICAL PERSPECTIVES

- BEHAVIOURAL APPROACHES TO CORPORATE GOVERNANCE: ‘PROBLEM’: NO INTEGRATIVE PERSPECTIVE (SEE COHEN, 2007)

- INSTITUTIONAL APPROACHES TO CORPORATE GOVERNANCE ‘PROBLEM’: INTEGRATIVE PERSPECTIVE, WHERE IS THE INDIVIDUAL?

- DESCRIPTIVE APPROACHES: FOR WHOM, FOR WHAT? PROBLEM: IMPLICATIONS? PERSPECTIVE?
AGENCY, HABIT AND INSTITUTIONS (2)

THEORETICAL AVENUES:

• NORMATIVE APPROACHES: E.G. SOCIAL CONTRACT, PHRONESIS (VIRTUE ETHICS)

• BEHAVIOURAL APPROACHES: E.G. BOARD DYNAMICS

• INSTITUTIONAL APPROACHES: E.G GOVERNANCE CODES

-> WHERE DO THEY MEET?
BEHAVIORAL CORRECTION. THE SEPARATION OF COGNITION, EMOTION AND ROUTINES, COMPARED TO THE DEWEY PERSPECTIVE (COHEN, 2007)
INSTITUTIONAL CORRECTION

HABIT AS INTERFACE BETWEEN INSTITUTION AND AGENT (E.G. HODGSON, 2004)
DEFINITIONS CORPORATE GOVERNANCE:


• GOVERNANCE STRUCTURE: ALL FORMAL PROCEDURES AND PROCESSES IN WHICH DECISIONS ARE MADE (NOOTEBOOM 1999, WILLIAMSON 2000).

-> WHAT ABOUT HABITS?
THE OBJECTIVE OF THE FIRM (TABAKSBLAT)

“The code is based on the principle accepted in the Netherlands that a company is a long-term form of collaboration between the various parties involved. The stakeholders are the groups and individuals who directly or indirectly influence (or are influenced by) the achievement of the aims of the company. In other words employees, shareholders and other providers of capital, suppliers and customers, but also government and civil society. The management board and the supervisory board have overall responsibility for weighing up the interests, generally with a view to ensuring the continuity of the enterprise. In doing so, the company endeavours to create long-term shareholder value.”

(Commissie Corporate Governance, 2003, p. 3).
### The mediating role of governance in between institutions and agents?

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<td><strong>Organizational level</strong></td>
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<td><strong>Individual level</strong></td>
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<td>What is the role people envision within a governance system and structure</td>
<td>Dialogue on mental models</td>
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This would mean that governance structures reflect certain habits, and certain institutional preferences.
## The role of governance in institutionalisation

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<td>Regulation on the corporation and alternative governance structures (coops, non-profits)</td>
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<td>Governance structure</td>
<td>Stakeholder influence, e.g. shareholder representation, works council, advisory board, member board</td>
<td>Dialogue on the relationship between corporate interest and stakeholder interests</td>
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## GOVERNANCE STRUCTURE DECIDES ON CSR-ISSUES?

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<td>Meeting with works councils</td>
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<td>Meetings with labour unions</td>
<td>Report of the Works Council in the annual report</td>
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<td>Performance interview</td>
<td>Agreements on working conditions, other agreements</td>
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<td>(Negotiations on) nomination and appointment of supervisory directors</td>
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<td>Committees of the supervisory board</td>
<td>Profile of the external directors, screening by supervisors</td>
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<td>Consulting supervisory authorities</td>
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<td>Client association</td>
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<td>Influence-pathways can be institutionalised in the</td>
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De Graaf & Herktstroter, 2007
DISCUSSION:

• HABIT AS THE INTERLINKAGE BETWEEN THE AGENT AND THE INSTITUTION

• THE GOVERNANCE SYSTEM AND GOVERNANCE STRUCTURE REFLECT CERTAIN HABITS

• DIALOGUE MECHANISMS AFFIRM/CONFIRM OR CHANGE CERTAIN HABITS
THANKS