

Impact case study (REF3b)

Institution: University of Oxford
Unit of Assessment: 19 – Business and Management Studies
Title of case study: Influencing National and International Policy Towards Corporate Governance and Natural Capital
<p>1. Summary of the impact</p> <p>Professor Colin Mayer’s research on corporate governance has had a profound impact on regulation, practice and policy regarding the governance of corporations around the world, and the measurement of corporate and national economic performance in the UK. Through policy engagement with the OECD, research carried out by Mayer over the past two decades has had a clear impact on the formulation of governance rules and codes at the international level, including recent discussions to modify the principles since 2012. Mayer’s research has had further influence, since 2012, through his membership of the UK Government’s Natural Capital Committee. His research on corporate valuation, performance and the role of business in society has also, and continues to change significantly the ways in which both national and corporate accounts incorporate natural capital.</p>
<p>2. Underpinning research</p> <p>Research by Professor Mayer (Peter Moores Professor of Management Studies at the Saïd Business School at Oxford University since 1994) focuses on the international comparative nature of corporate governance and the relation of this to financial markets and corporate performance. Mayer’s research records that there are fundamental variations in the ownership and control of companies across countries [Section 3: R1 and R2]. These differences are not, as commonly suggested, primarily associated with variations in legal systems or regulation but are a reflection of institutional differences which allow informal relations of trust to be sustained.</p> <p>The emphasis on the use of law and regulation to promote the development of corporate and financial sectors [R3] and the way in which capital markets exercise control over companies is quite different from conventional views. In particular, takeovers and the market for corporate control do not provide an effective discipline or sanction of bad management [R4]. The main influence of financial markets is not therefore in exercising control in a conventional principal-agent context but in sustaining relations of trust with different stakeholders, including employees, purchasers and suppliers.</p> <p>In particular, Mayer’s research established that firms are mechanisms for upholding commitments as well as exercising control and providing incentives. As a consequence, differences in the nature of ownership are related to the types of activities in which firms are engaged and the design of financial systems, including their regulation, should be tailored to the real activities in which firms are involved [R6]. This implies that rules regarding corporate governance should be permissive and enabling, allowing companies to adopt the ownership and control structures that are best suited to their activities and not presume that there is a single right form. For example, the governance needs of entrepreneurial and innovative firms are quite different from more traditional manufacturing sectors [R7].</p> <p>This also has profound implications for the way in which performance, assets and liabilities should be valued. In particular, it points to the importance of including stakeholder and social factors in measurements of performance, especially in regard to the costs of sustaining natural capital [R5].</p>
<p>3. References to the research</p> <p>Listed below are a representative set of references demonstrating the quality of the research:</p> <p>R1] Franks, Julian & Mayer, Colin, 1997. "Corporate Ownership And Control In The U.K., Germany, And France," Journal of Applied Corporate Finance, 9, 30-45. This publication derived from an ESRC grant on “Capital Markets, Corporate Governance and the Market for Corporate Control”.</p>

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- R2]** Franks, Julian & Mayer, Colin, 2001, "Ownership and Control of German Corporations," *Review of Financial Studies*, 14, 943-977.
- R3]** Franks, Julian, Mayer, Colin & Rossi, Stefano, 2009, "Ownership: Evolution and Regulation," *Review of Financial Studies*, 22, 4009-4056, winner of the European Corporate Governance Institute/ Journal of Financial Economics Clinical Paper Competition, 2004 and the Best Paper in the ECGI Financial Economics Series, 2005.
- R4].** Franks, Julian, Mayer, Colin & Renneboog, Luc, 2001, "Who Disciplines Management in Poorly Performing Companies?" *Journal of Financial Intermediation*, 10, 209-248, winner of the *Journal of Financial Intermediation* best paper prize.
- R5]** Mayer, Colin, 2013, "Firm Commitment: Why the Corporation is Failing Us and How to Restore Trust in It", Oxford: Oxford University Press.
- R6]** Carlin, Wendy & Mayer, Colin, 2003, "Finance, Investment, and Growth," *Journal of Financial Economics*, 69, 191-226.
- R7]** Mayer, Colin, 2002, "Financing the new economy: financial institutions and corporate governance", *Information Economics and Policy*, 14, 311-326. Reprinted in *Financial Systems, Corporate, Investment in Innovation, and Venture Capital* (A. Bartzokas and S. Mani eds). Cheltenham: Edward Elgar

4. Details of the impact

The body of research by Mayer (described in section 2) led to a series of policy recommendations for diversity, avoidance of the imposition of regulations that impose homogeneity on the activities and financing of firms, enabling legislation that promotes the breadth of choice available to firms, and measurement of performance that reflects stakeholder and social as well as shareholder benefits. The impact of Mayer's research is most fundamentally reflected in the way in which the OECD has altered its policies towards the governance of firms. He was not only involved in informing the original principles for governance devised by the OECD, but has subsequently engaged in discussions to revise these principles. Furthermore, most recently, Mayer's research has specifically informed the derivation of rules for incorporating natural capital in national and company accounts in the UK.

Mayer's involvement with the OECD began in 1996. His research had particular impact through two papers, which the OECD commissioned Mayer to write during the late 1990s [Mayer, 1996, and Mayer, 1999]. They played a key role in the initial development of the OECD corporate governance principles that are now applied around the world in national corporate governance codes. These reports were informed by Mayer's findings that competition between financial and governance systems is desirable and that corporate governance codes should be permissive rather than restrictive **[R1]**. Building on this original engagement with OECD, over the last two decades, Mayer has acted as an advisor to the OECD and participated in conferences and discussions, led by the OECD, about the formulation of their governance principles.

In 2012, the OECD decided that it should revise and update their corporate governance principles, in light of new thinking about the role of corporate governance in promoting economic activity. As a consequence, building on his previous interaction, the OECD again approached Mayer, and asked him to advise them specifically on how best to update these principles. As a direct consequence of his research on corporate governance **[as exemplified by R7]**, Mayer was invited, along with a number of other researchers, to participate in a conference in Istanbul organized by the OECD, at which initial ideas were gathered about the way in which the OECD should take forward its work on corporate governance in the future. Mayer's presentation at the conference, based on his findings on the requirements for diversity across systems and the relation between governance, innovation and investment **[R2, R3, R4 and R6]**, is included in the OECD publication from that conference, Mayer 2012 **[Section 5: C1]**. His presentation argues that the traditional focus of corporate governance on shareholder value is incorrect, that instead it should establish an appropriate balance between corporate commitment and control **[R5]** and that the OECD has a key role to play in promoting appropriate national institutional, legal and regulatory systems to facilitate this.

Further impact of Mayer's research occurred in meetings and discussions with the Head of Corporate Affairs at the OECD, the outcome of which was that in April 2013 Mayer was asked to

advise the OECD on “the direction and content of a 2 year OECD programme” that revisits the link between finance and business to establish how principles of corporate governance should evolve over the next few years. The impact of Mayer’s research is described by the Head of Corporate Affairs at the OECD who says that: “The decision to engage Professor Colin Mayer in our ongoing work is greatly based on his past contributions to OECD’s work, which has had an important impact on the direction and content of international rulemaking. The objective of this project is very much inspired by the policy conclusions that follow from Professor Mayer’s academic work on the nature of corporate governance and the link to financial markets. By possessing an exquisite combination of academic rigour and an understanding of the public policy process, Professor Mayer is not only a highly valuable advisor but also an effective originator of change.” **[C2]**

In September 2012, Mayer’s research on valuation and performance **[R5]** also led to his appointment by the Secretary of State for Environment, Food and Rural Affairs (Defra) to the UK Government’s Natural Capital Committee (NCC), chaired by Professor Dieter Helm (Oxford) and made up of a small number of both academics and practitioners. Mayer serves on this Committee for an initial period of three years until 2015 and has thus far met with other members of the committee on approximately six occasions to advise the UK Government on how natural assets should be protected and used in a sustainable fashion. It is the first committee of its kind in the world, and as such provides path-breaking policy advice that will set the foundations for similar initiatives by governments around the world and by international agencies, such as the World Bank. The Deputy Director in Environmental Economics at Defra testifies Mayer was appointed to provide advice based on his research and knowledge of accounting, finance and business on the procedures by which natural capital should be valued for company and national accounting purposes, and how businesses should be engaged in protecting and promoting natural capital **[C3]**.

Professor Mayer is specifically responsible for advising the NCC on the inclusion of natural capital in national accounts and the adoption of natural capital accounting by corporations and landowners. Early evidence of the impact of Mayer’s research can be found in the minutes of these meetings. The July 2013 minutes of the Committee, for example, report “Colin to produce a concept note defining corporate natural capital accounting in time for the September landowners meeting” **[C4]** and the September 2013 minutes note that “Plans for a 11th November ‘International Seminar on Valuation for Accounting’ hosted by Defra and ONS in association with the NCC were discussed. Colin and Giles [Atkinson] have significant roles and it was agreed that the event has the potential to make a significant contribution to the debate.”

This is potentially one of the most significant areas of public policy research at the interface of environmental, corporate, governance and regulatory issues. It draws on Mayer’s research on valuation (Kay and Mayer (1986) and Edwards, Kay and Mayer (1987)), which he has extended to a stakeholder and social context in his book **[R5]**. In particular, Mayer’s research assists the NCC in the formulation of rules regarding the valuation of natural capital in national and company accounts, the way in which the costs of sustaining natural capital should be determined, how measurement should be translated into policy for promoting protection of natural capital and the governance required at the corporate level to achieve this **[C4]**. The Committee relies heavily on the advice provided by Mayer on the formulation of natural capital accounting **[C3]**.

Mayer was also invited to sit on the ONS natural capital accounting steering board overseeing the incorporation of natural capital into UK national accounts. One of the Deputy Directors in Environmental Economics at Defra, says: “Colin’s work (through the NCC) on natural capital accounting is proving instrumental in helping the Government implement its aim of getting natural capital properly accounted for within the British economy. He has and continues to not only help shape the work of incorporating natural capital into the national accounts, but is also leading the work to get companies to properly account for the impacts they have on natural capital” **[C3]**.

In this way, through his involvement with the OECD and the NCC, Mayer’s research on corporate governance has had substantial impact on thinking and decision making processes of a number of governmental bodies in both the UK and international arena.

5. Sources to corroborate the impact

C1] Mayer, Colin, 2012, "Regulating for Value Creation: What is the Link between Market Confidence and Contractual Freedom?" in OECD, "Corporate Governance, Value Creation and Growth: The Bridge between Finance and Enterprise"

<http://www.oecd.org/daf/ca/corporategovernanceprinciples/50242938.pdf>

C2] Email from the Head of Corporate Affairs at the OECD (held on file) corroborates Mayer's contribution to OECD corporate governance policy formulation.

C3] Email from the Deputy Director in Environmental Economics at Defra (held on file) corroborates Professor Mayer's contribution to the work of the Natural Capital Committee and the Office for National Statistics on natural capital accounting for national and corporate accounts.

C4] Minutes of Meetings of the Natural Capital Committee, e.g.

<http://www.defra.gov.uk/naturalcapitalcommittee/files/NCC-minutes-16th-July-2013.pdf>