



# **Beyond Shareholder Value: Corporate Governance and Corporate Venturing**

*With A Focus on Boards*

**Prof. Dr. Erik P.M. Vermeulen**



**Europe, We Have a Problem!**

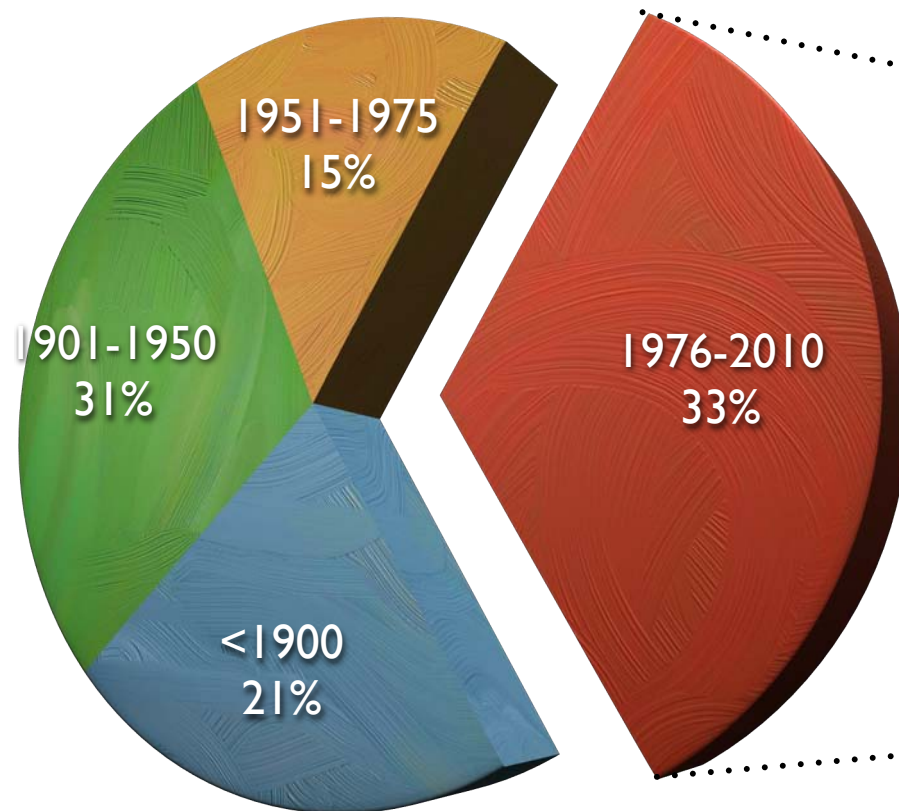


**Europe, We Have a Problem!**

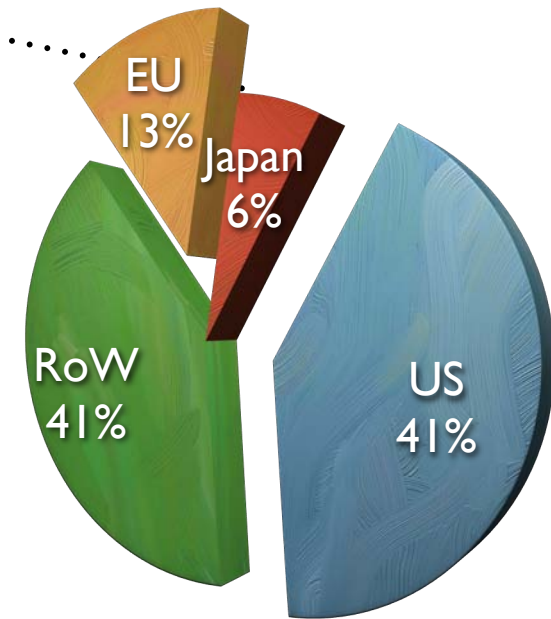
*Second*

# Europe's Growth Problem!

**FT Global 500 (2010)  
Companies divided according to  
formation date**



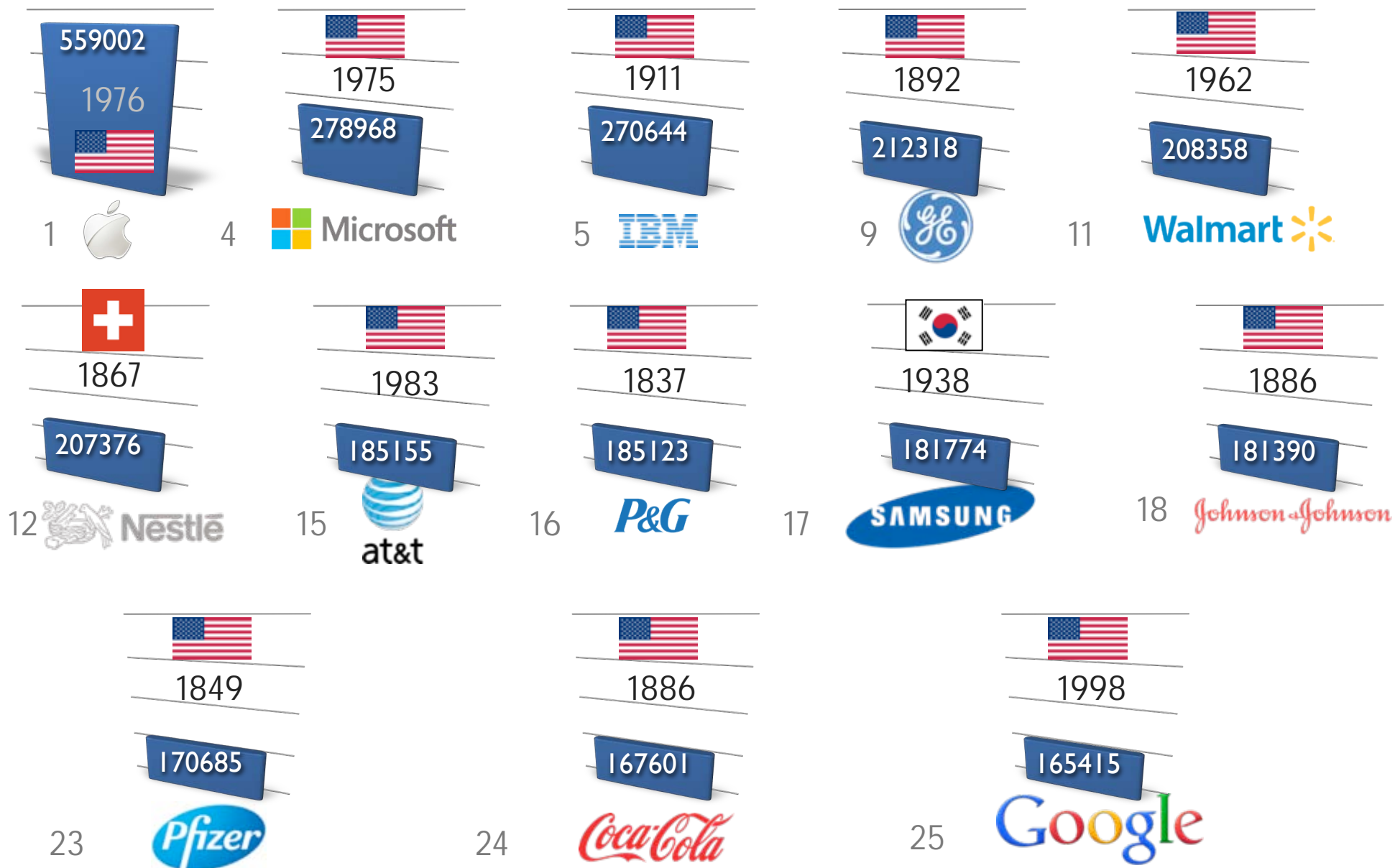
**FT Global 500 (2010) Companies  
incorporated during the period  
1976-2010 divided according to  
region**





# FT Global 500 2012

## Market Values at 30 March 2012 in \$m



# Corporate Governance?

FINANCIAL TIMES MONDAY JANUARY 9 2012

## Corporate boardrooms are in need of education

### Soapbox

By Didier Cossin

Most corporate boards are failing. I'm not only referring to the spectacular failures at Olympus, Yahoo or BP; most boards are not adding the value they could to corporations because they are not being educated properly. It would seem that business schools still see boards as a check on chief executives rather than as a competitive advantage for a company. Let us take the issue of adding value. Most boards comply with classical corporate governance standards and now follow commonly agreed practices on board size, presence of independent directors, constitution of committees and so on. But within this framework how many chief executives consider their boards to be as effective as their executive team? How many rely on their boards for true value creation? In fact, boards are seriously lagging, to the point that many chairmen consider it acceptable to have board members who do not add value – unacceptable on an executive team.

A large part of the blame for this can be laid at the feet of business schools and the inadequacy of the board education that they provide. Until now most business school research has promoted the view of the board as a control mechanism on chief executives. However, this so-called agency theory (in which executives are self-interested and in conflict with shareholder value creation) is obsolete. Agency-based research has framed regulation and education in a way that is now unproductive and sometimes destructive. As a result, business-school education has failed boards because of the academic obsession with one side of

the problem: the control of managerial misbehaviour. Such an academic view needs to be readdressed.

Boards today can be a competitive advantage for companies. They can provide an outside view, overcome blind spots in strategy, raise awareness of external risks, connect with governments, society and other stakeholders, give credibility and build trust in ways that executive teams cannot.

Thanks to business-school education, we have well-tuned educational tools and practices for executives. But most board education programmes today add little value and instead either focus on the regulatory environment or copy existing managerial education for senior executives.

But boards need more than this to become truly effective. For example, the board's strategic role is very different to the strategic role of executives. It ranges from supervision (ensuring the company's strategy is right and well implemented) to co-creation (overcoming blind spots) to supporting the executives (within the company and with outside stakeholders). However, business schools still know relatively little about how

to do this well and as a result provide poor strategic education for boards.

Alternative boards and the comparative performance diversity is regard as b from other faster to fo industry sh disruptive i Employee i can also be source of h thinking. B do business educate bot perform th

Board ed failing to a other impo such as wh enable boa value, as o regulatory And, most what make a good boa

Board ed crucial bec chief execu stretched a with an inc complexity governmen business m changes, n opportuniti economic conditi ons, even the very best executives cannot be expected to respond consistently to all these challenges.

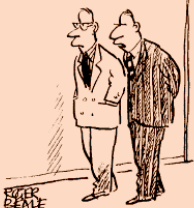
In short, the board is now essential to corporate success. It is time that business schools recognise this and create education for board members that hones their skills and makes them a major competitive advantage for their companies.

Didier Cossin is professor of finance and governance at IMD, director of the IMD Global Board Center and programme director for High Performance Boards

Comment online: [www.ft.com/soapbox](http://www.ft.com/soapbox)

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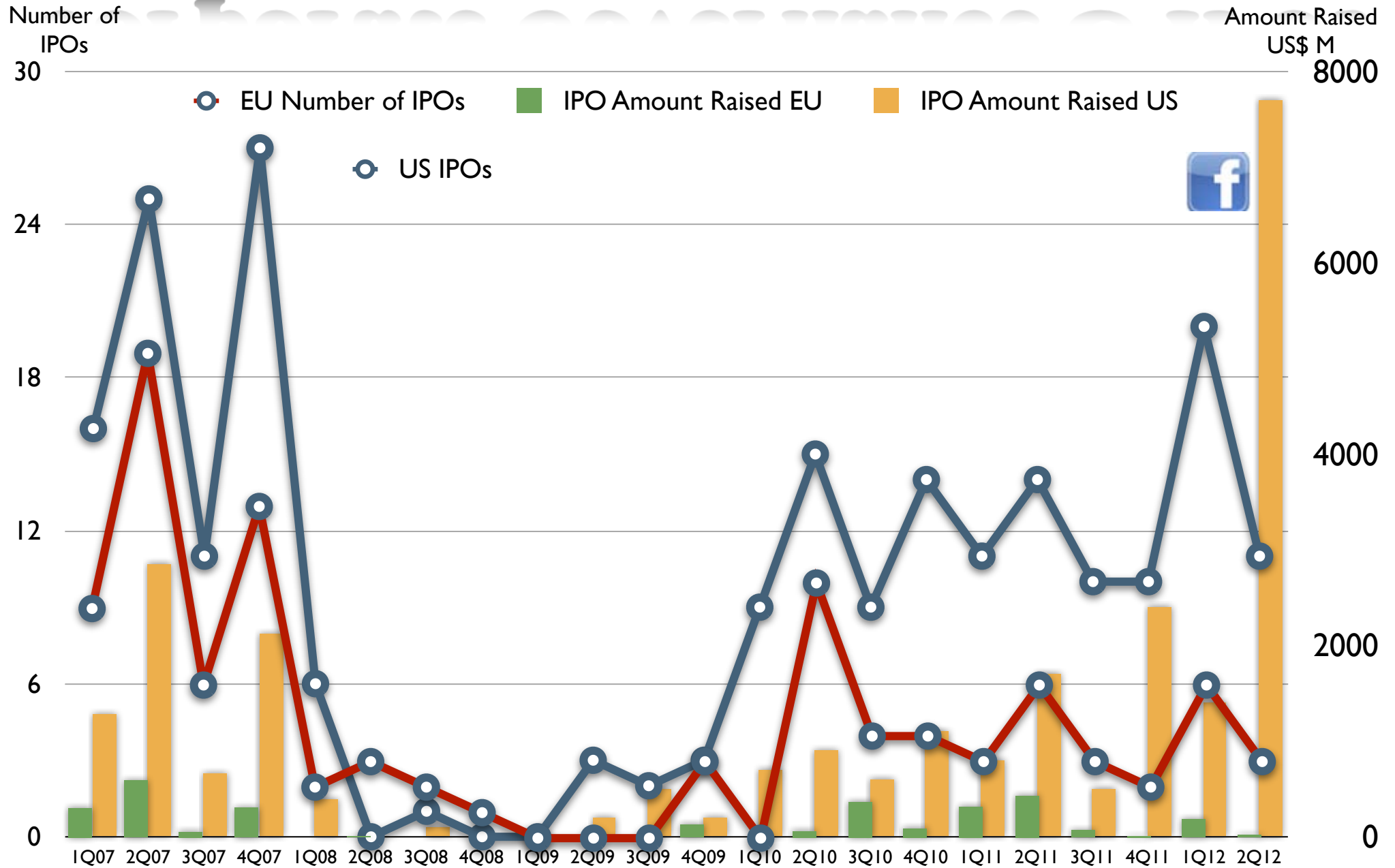
THE BOARD IS KEY TO OUR CORPORATE SUCCESS. IT'S VITAL THEY NEVER FIND THIS OUT



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# Corporate Governance & IPOs

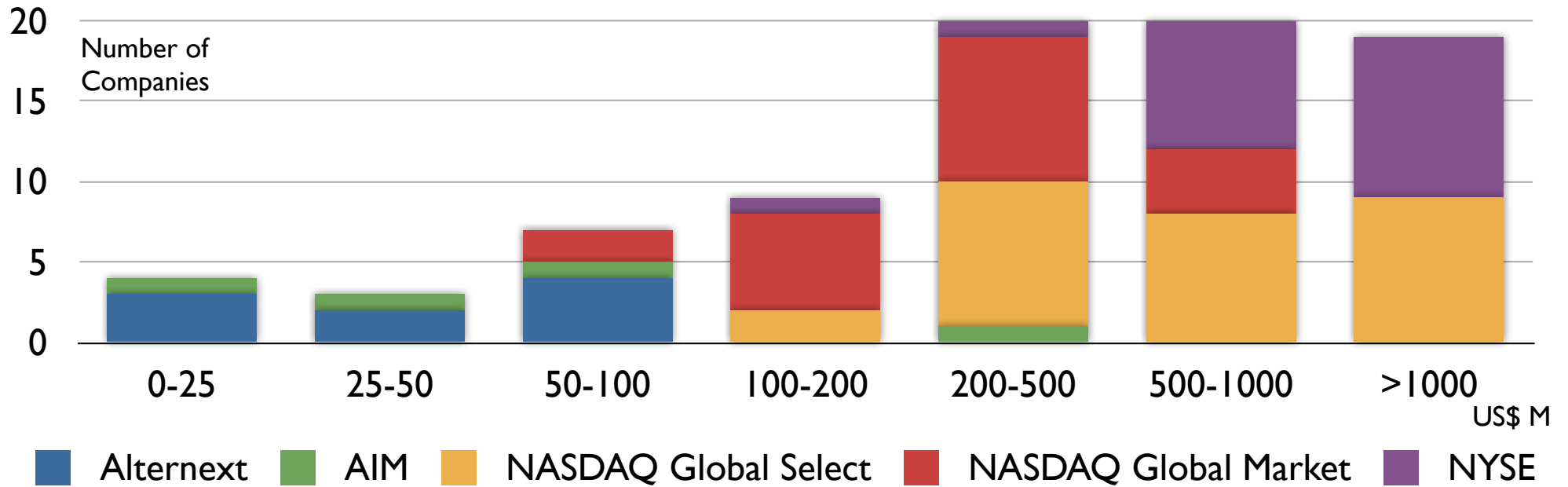


Source: Dow Jones VentureSource/Preqin



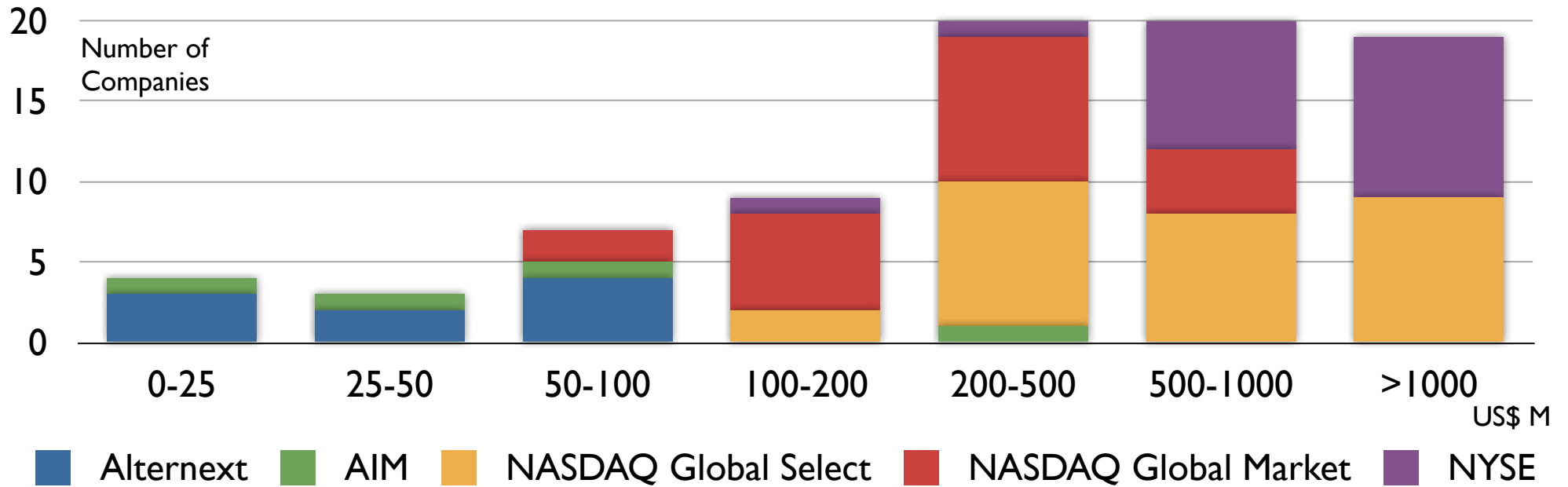
# Corporate Governance Matters!

Number of Companies per range of Market Cap (as per 14 September 2012)

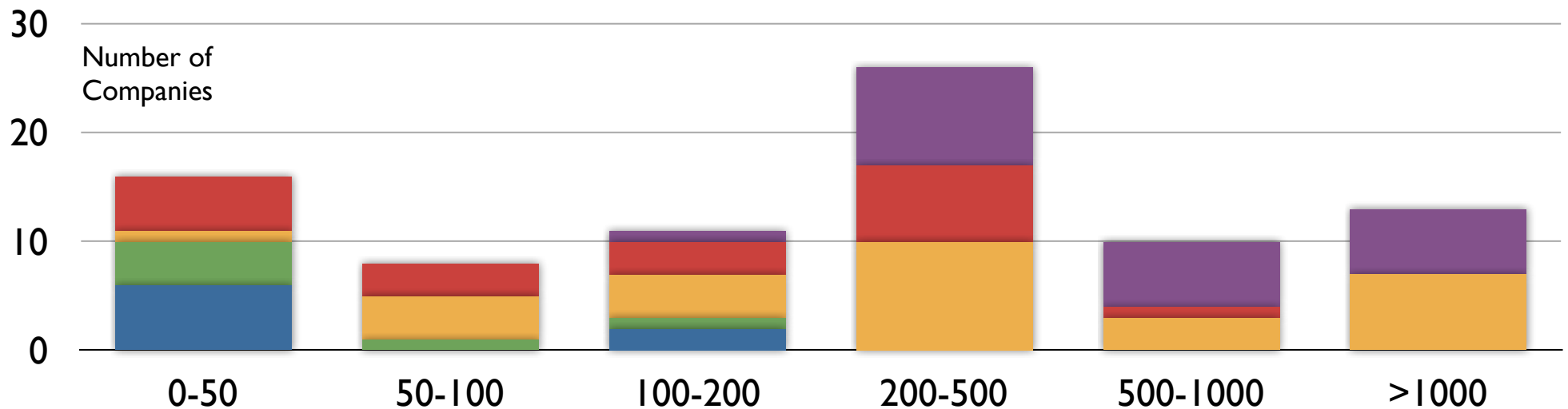


# Corporate Governance Matters!

**Number of Companies per range of Market Cap (as per 14 September 2012)**



**Number of Employees (as per 14 September 2012)**

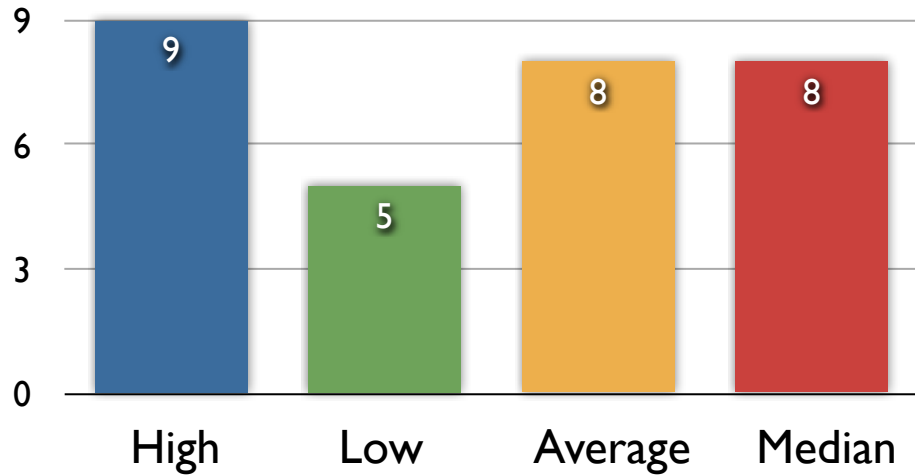


Source: Morningstar, Financial Times, Dow Jones VentureSource, Preqin

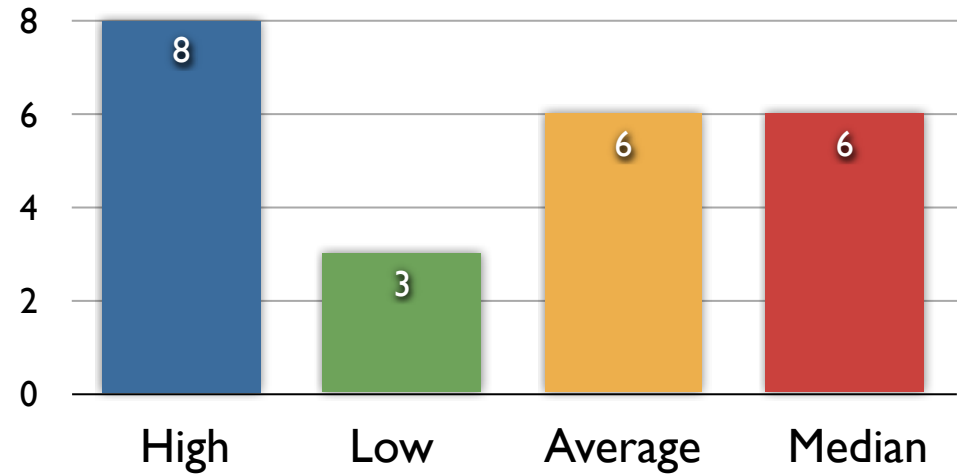
Focus on Principal-Agent

# Irrelevant?

Board Size



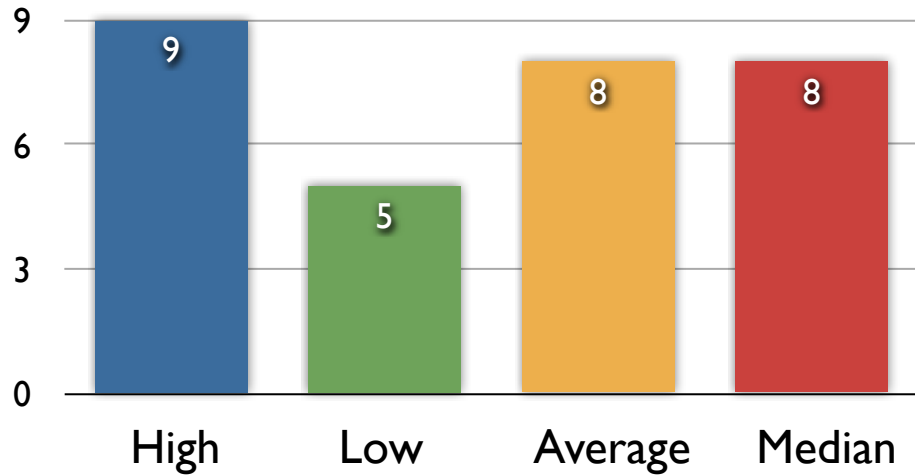
Independent Directors



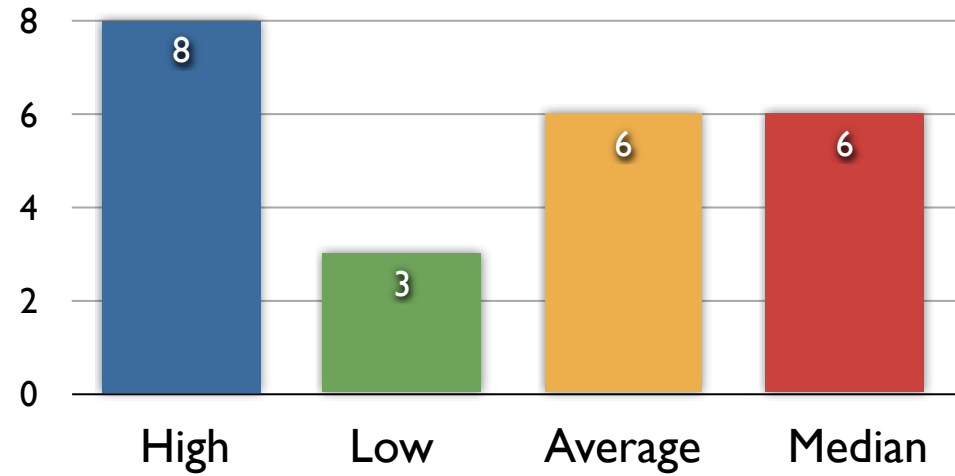
Focus on Principal-Agent

# Irrelevant?

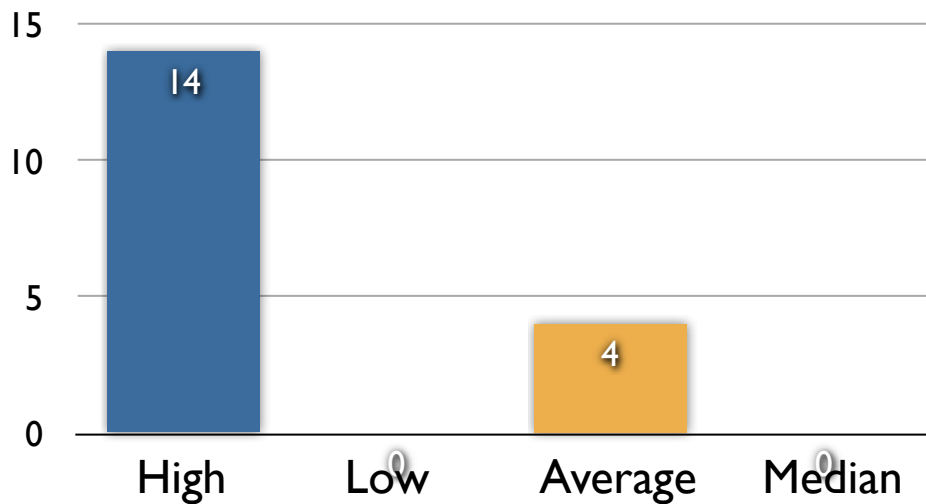
Board Size



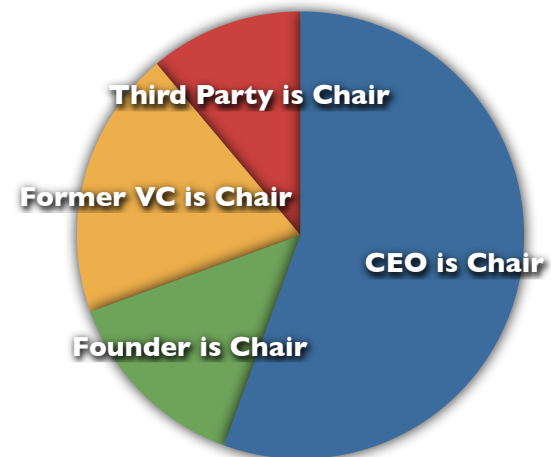
Independent Directors



% Women on Board



Board Chairs





# Focus

## Corporate boardrooms are in need of education

Soapbox  
By Didier Cossin

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Boards today can be a competitive advantage for companies. They can provide an outside view, overcome blind spots in strategy, raise awareness of external risks, connect with governments, society and other stakeholders, give credibility and build trust in ways that executive teams cannot.

Information

Procedures

A large part of the blame for this can be laid at the feet of business schools and the inadequacy of the board education that they provide. Until now most business school research has promoted the view of the board as a control mechanism on chief executives. However, this so-called agency theory (in which executives are self-interested and in conflict with shareholder value creation) is obsolete. Agency-based research has framed regulation and education in a way that is now unproductive and sometimes destructive. As a result, business school education has failed boards because of the academic obsession with one side of

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NEVER FIND THIS OUT?

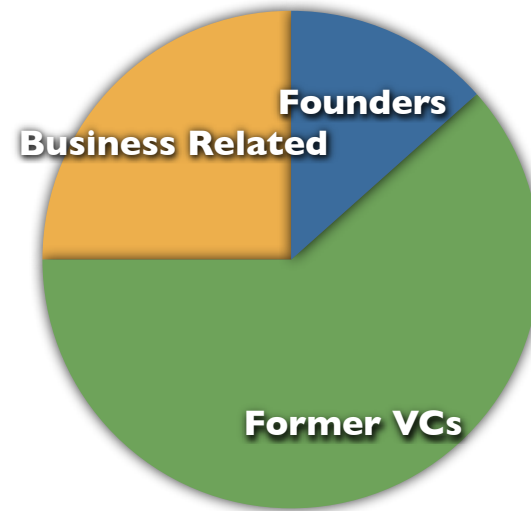
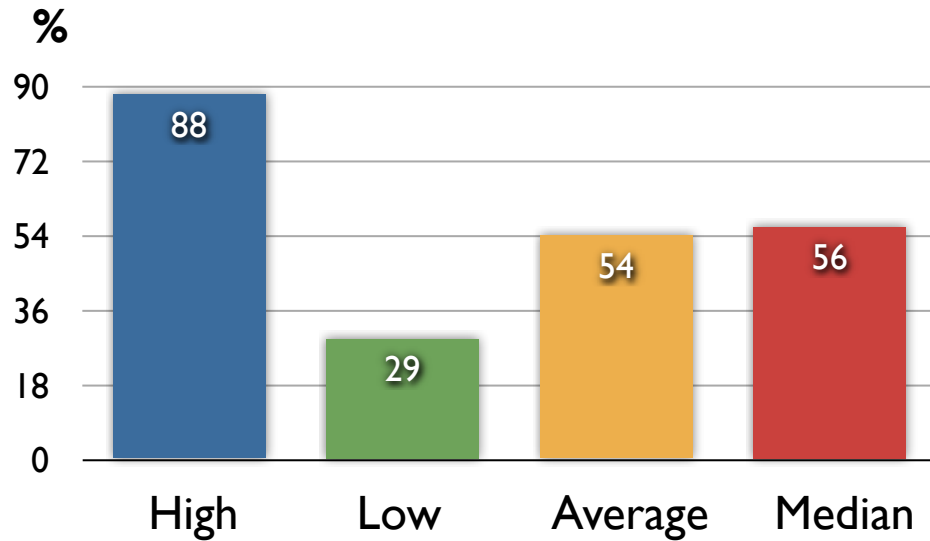
opportunities and shifts in economic conditions. Even the very best executives cannot be expected to respond consistently to all these challenges. In short, the board is now essential to corporate success. It is time that business schools recognise this and create education for board members that hones their skills and makes them a major competitive advantage for their companies.

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Board Dynamics/  
Culture

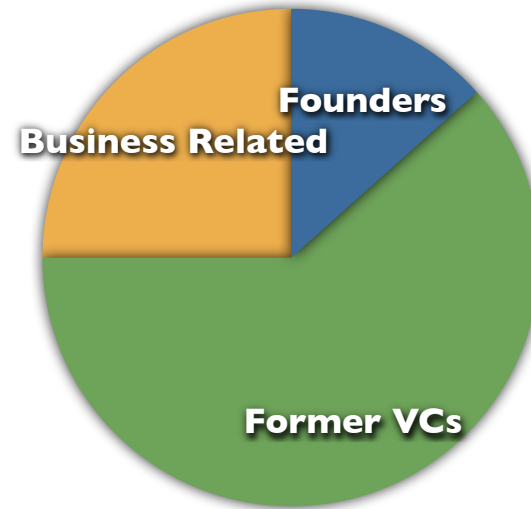
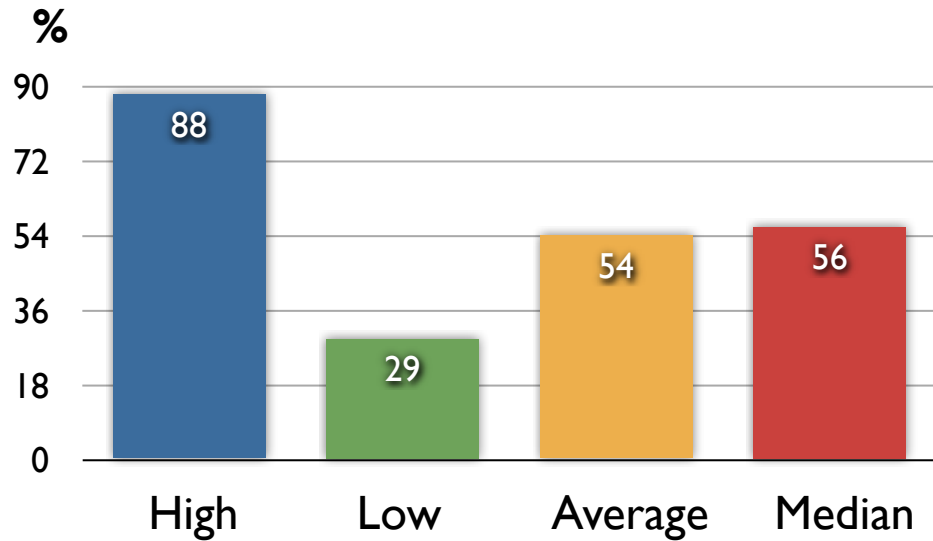
# Board Dynamics: Experience

"Insiders"

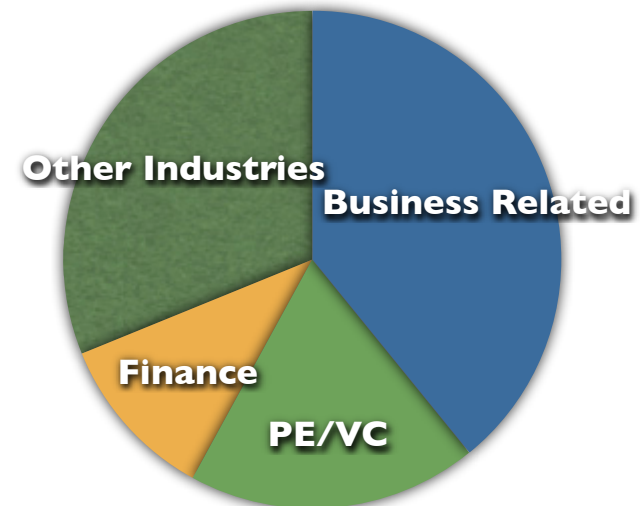
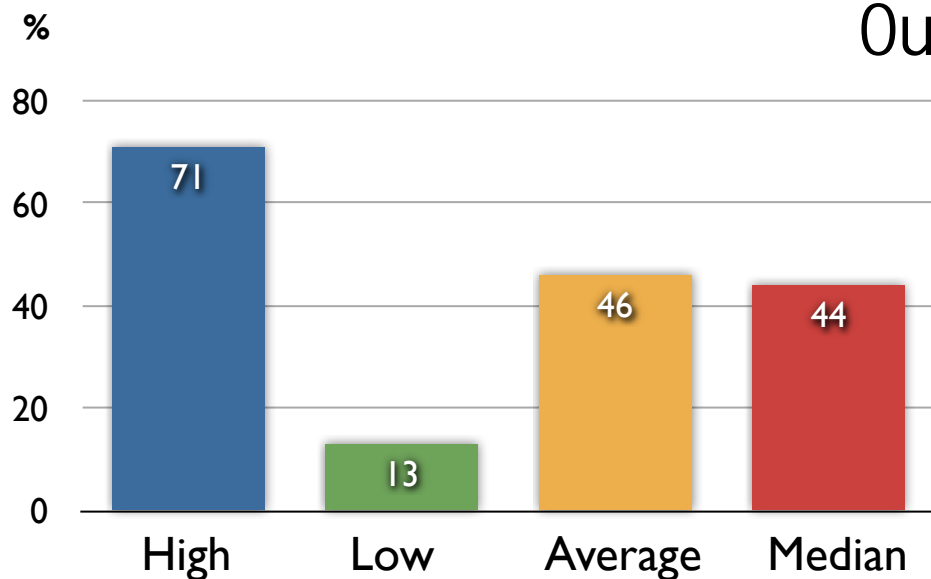


# Board Dynamics: Experience

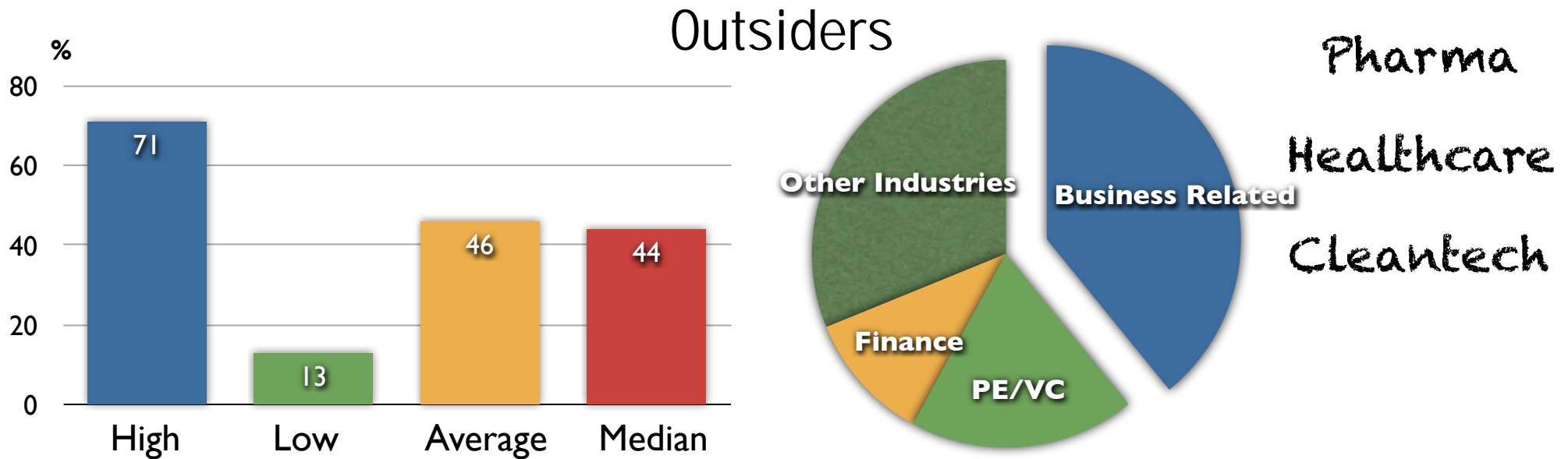
## "Insiders"



## Outsiders



# Board Dynamics: Experience



(Reuters) - Groupon Inc, the online coupon company that floated just months ago in the strongest IPO in years, has had recurring accounting problems that critics say show a need for more financial sophistication on its board.

Mark Zuckerberg's board has many strong voices: Mark Andreessen (venture capitalist and Netscape Communications co-founder), Jim Breyer (managing general partner of Accel Partners), Peter Thiel, (founder of hedge fund Clarium Capital), Reed Hastings, CEO of **Netflix (NFLX)**, and Donald Graham (Washington Post CEO). However, the viewpoints of these executives are likely similar.



# Board Dynamics/ Culture?

## Trying to recapture start-up's feel

MOUNTAIN VIEW, CALIFORNIA

Google's chief fights hard against what he sees as its worst enemy: itself

BY CLAIRE CAIN MILLER

Larry Page, Google's chief executive, so hates wasting time at meetings that he once dumped his secretary to avoid being scheduled for them. He does not much like e-mail either — even his own Gmail — saying the tedious back-and-forth takes too long to solve problems.

Mr. Page has never been more impatient than he is now. He is on an urgent mission to pull Google through a madlife crisis that threatens to knock it off its perch as the coolest company in Silicon Valley.

Founded in 1998, Google is not yet 15.

But in tech years, it is an aging giant that moves a lot more slowly than it did when it was a hot start-up. It is losing employees to the new, hotter start-ups and is being pushed around by government regulators and competitors like Facebook, Apple and Amazon, which are all vying for people's online time.

So Mr. Page, Google's co-founder and former chief executive, who returned to the top job in April, is making changes large and small. He dropped more than 25 projects, saying they were not popular enough. He masterminded Google's biggest deal by billions, the \$12.5 billion Motorola Mobility bid, a bold move that positions the company to enter the hardware business.



### Corporate R&D

**Sarah Murray finds that a mix of models is being deployed**

While the individuals behind innovative green technologies are often entrepreneurs or scientists, large corporations are also busy developing environmentally-friendly products and services.

Some have well established internal research and development centres. Yet, companies are also using everything from joint ventures, corporate venture arms and open source systems to pursue clean-tech ideas.

As environmental considerations move higher up the corporate agenda, large companies are working to take ideas for clean technologies to commercialisation, either to reduce their own environmental footprint, or to offer green products to their customers.

Since 2005, for example, General Electric has been developing green products and services through its ecomagination initiative. Last year, GE invested some \$1.8bn in ecomagination R&D, and the company plans a total cumulative investment in this area of \$10bn between 2010 and 2015.

However, for large organisations, it is not always easy to pursue new ideas. "Within large-scale multinational engineering businesses, breakthrough innovation is difficult," says David Hatrick, technology and innovation expert at PA Consulting Group.

"Companies are not short of ideas," he explains. "But they often struggle to commercialise breakthroughs rapidly because of internal bureaucracy."

To overcome such challenges, companies are turning to a variety of models. At Unilever, an internal R&D function is supplemented by an open innovation programme, through which the company uses web-based tools to define problems and seek

solutions externally, from universities or research institutions.

Unilever also has a corporate ventures unit, explains Gavin Neath, senior vice-president of communications and sustainability, which allows it to seek new technologies on a more speculative basis and take an equity position in the most promising of them.

This has been the case with Solazyme, a San Francisco-based renewable oil and bio-products company that has developed algae as a feedstock for energy. Unilever hopes its investment will help the company expand.

For large companies, great potential exists to partner with or invest in start-ups in developing clean-tech products and services.

GE has recognised this. Through an ecomagination competition called "Challenge: Pow-



**Corporations may not fully understand a complex landscape, says Gil Forer of Ernst & Young**

ering Your Home", the company is seeking breakthrough ideas from businesses, entrepreneurs, innovators and students. It has joined forces with venture capital firms including Emerald Technology Ventures, Foundation Capital, KPCB and Rockport Capital to invest \$200m in the best of these ideas.

"It will take many more of these types of partnering arrangements to create the groundswell of new technologies winning through to market and making a global impact," says Mr Hatrick.

For some enterprises, however, this is relatively new territory. Gil Forer, Ernst & Young's global clean-tech leader, says: "In the past two years, we've seen corporations that have not been active at all, or that had no corporate venture arm, entering the clean-tech emerging marketplace."

A stumbling-block for new-

# Big groups struggle to bring ideas to fruition

comers that want to engage in partnerships or make investments in emerging fast growth clean-tech companies, says Mr Forer, is that they may not fully understand the landscape.

They may not know how to identify the right companies and investors to work with or understand the growth stages of an emerging company or assess potential deals.

"It's a complex environment, and if you've never worked with emerging companies and their investors, it's a learning process," says Mr Forer.

When engaging with start-ups, other barriers exist. For example, entrepreneurs may worry that large corporations are approaching them simply to steal their ideas.

"And for a start-up, it's difficult to know how to engage with a larger company," says Jamie Vollbracht, head of new ventures, innovation at the Carbon Trust, the UK government-backed environmental adviser.

"It's like being in a new city where there are no signposts, and there's one of you and tens of thousands of them," he adds.

Mr Vollbracht advises companies to establish a dedicated function within the business that can foster open innovation and partnerships with start-ups. This, he says, is a means of creating clear signposts for individuals and enterprises that might want to approach a company with an idea.


In addition, he says, companies need to be flexible in coming up with collaborative models that suit their businesses. "There's not a one-size-fits-all answer," he says.

PA's Mr Hatrick argues that finding answers to environmental challenges will not be found if start-ups and multinationals work in isolation.

"In order to make a difference at a global level," he says, "we need new partnerships between nimble high-tech developers and major engineering groups with the scale to maximise the impact of breakthrough energy generation and green manufacturing technologies."

# BusinessWeek: Gore appointment to Apple board a mistake

By [Dennis Sellers](#), PCWorld

Mar 27, 2003 12:00 AM | 

The election of former Vice President Al Gore to Apple's [Board of Directors](#) just raises more questions about Apple's governance, Alex Salkever writes in his latest [Byte of the Apple column](#) for Business Week Online.

Though Gore is a "savvy politician with a keen interest in technology and culture" who popularized the term "information superhighway," he doesn't belong on Apple's board, he opines. Why? "With its stock price down over the past two years, the last thing Apple shareholders want or need is a celebrity director with zero business experience, aside from the business of fund-raising and politicking," Salkever says. "Gore might make a wonderful contribution to Apple in some other capacity. But Jobs & Co. should think long and hard about the message it sends to shareholders with this appointment."

In fact, the current Apple Board of Directors simply holds too many friends of Steve Jobs who allow the Apple CEO to have his own way, for better or worse, he adds. Though Salkever thinks that, overall, Jobs does a fine job, "Apple is a public company, and even corporate legends must be accountable to their shareholders."

As for Gore, the columnist says that he may be able to open doors in Washington, but could do that as a special counsel to Apple.

Stock

09/26/20

XNAS:

600.00

400.00

200.00

0.00

-200.00

Avg Vol.

02

03

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05

06

07

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09

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|86|

|91|

|96|

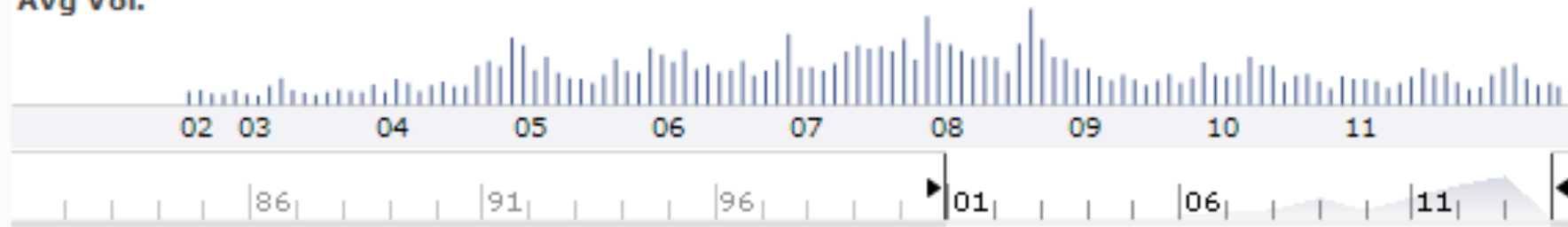
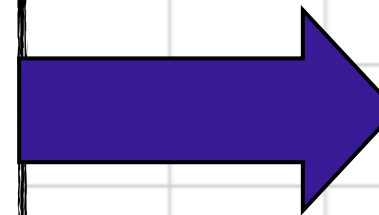
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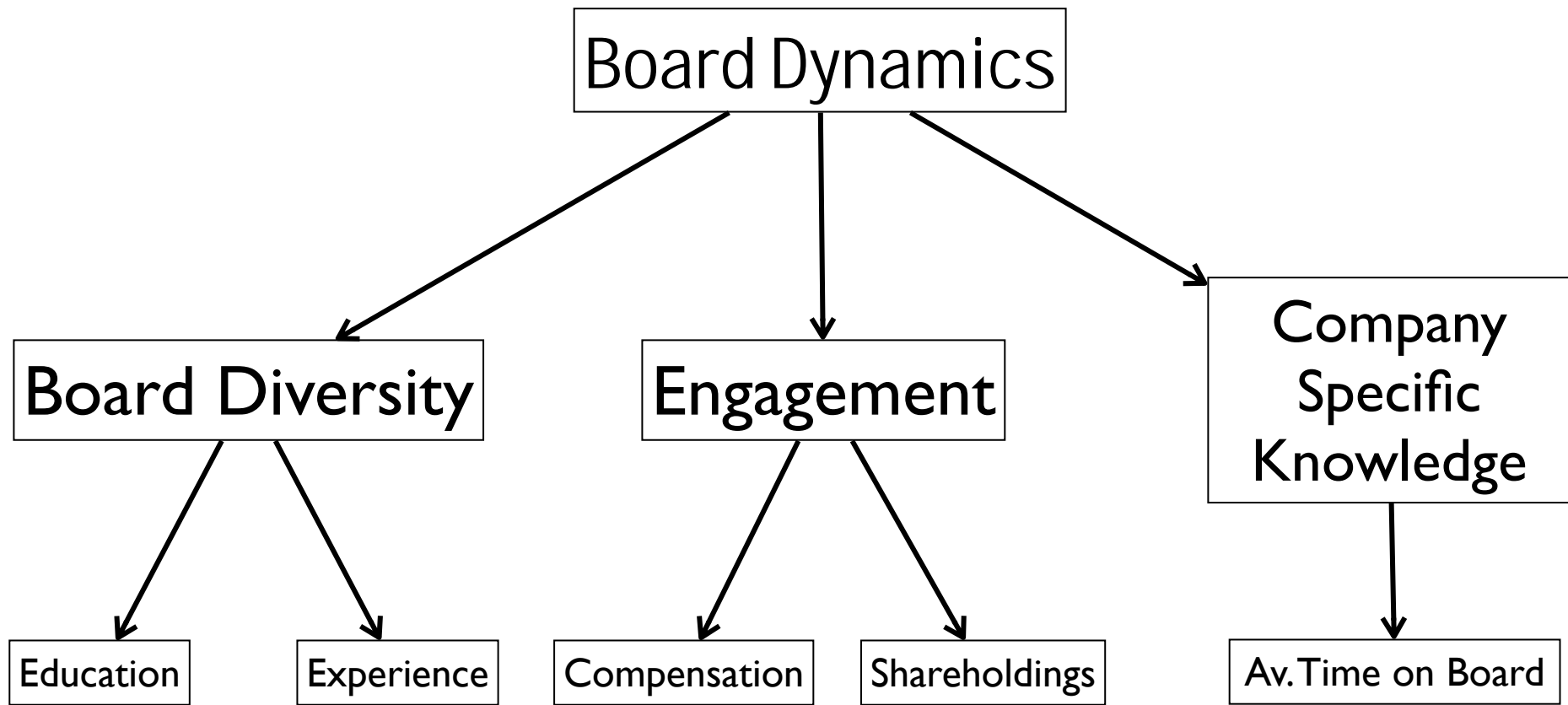
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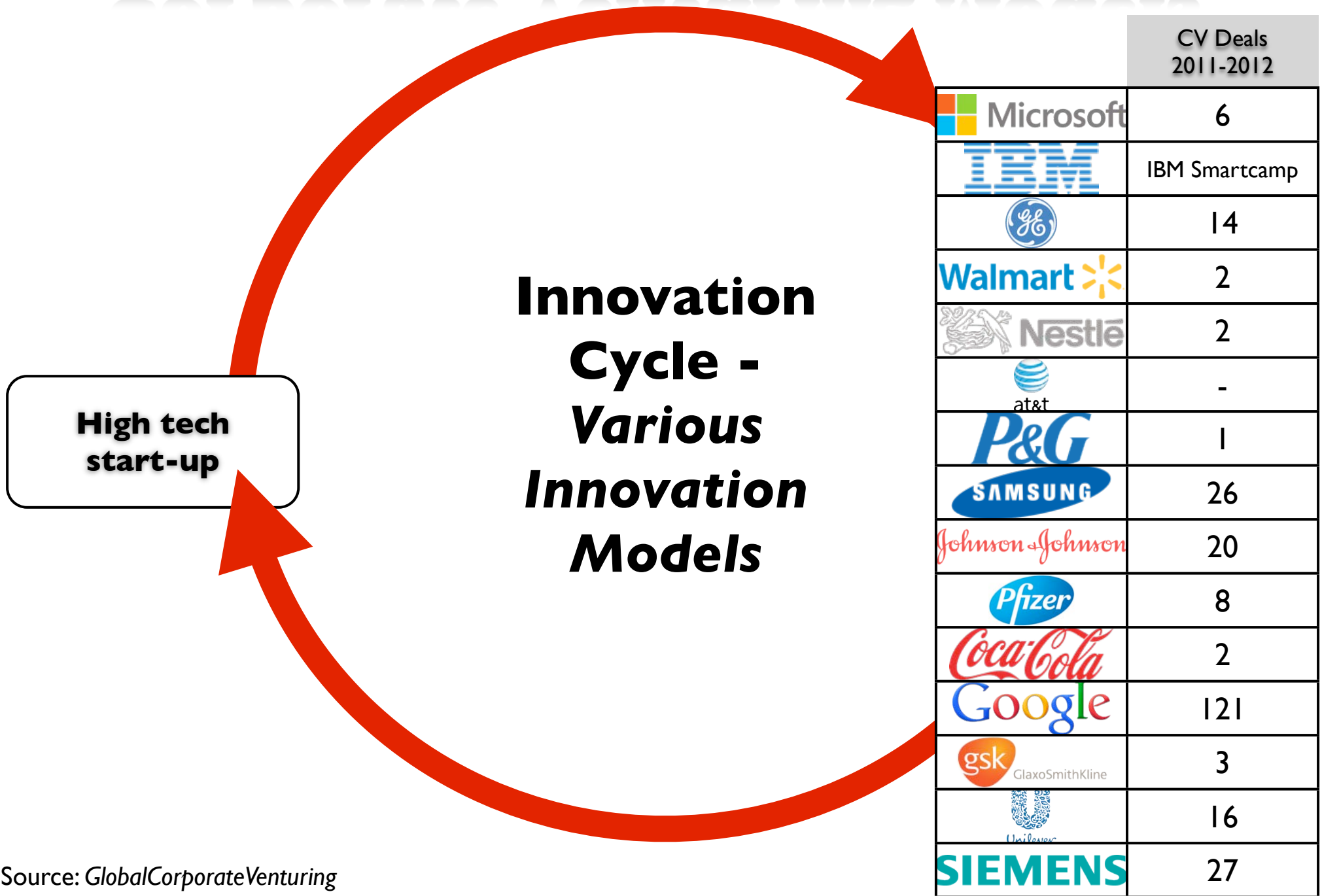
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**Create an Entrepreneurial Environment!**  
**Boards Actively Contribute to Innovation!**

# Corporate Venturing Models



**Innovation  
Cycle -  
Various  
Innovation  
Models**

**High tech  
start-up**

	CV Deals 2011-2012
 Microsoft	6
 IBM	IBM Smartcamp
 GE	14
 Walmart	2
 Nestle	2
 at&t	-
 P&G	1
 SAMSUNG	26
 Johnson & Johnson	20
 Pfizer	8
 Coca-Cola	2
 Google	121
 gsk GlaxoSmithKline	3
 Unilever	16
 SIEMENS	27



# Examples



Education

Experience

Av. Time on Board

Business-Finance: 20%

Marketing, Sales: 0%

9 Years

Science-physics, math, etc.: 70%

Public Sector, Academics: 20%

Engineering: 50%

Engineers: 20%

Arts, Sports, Media: 0%

Legal: 0%

Finance: 10%

IT: 30%

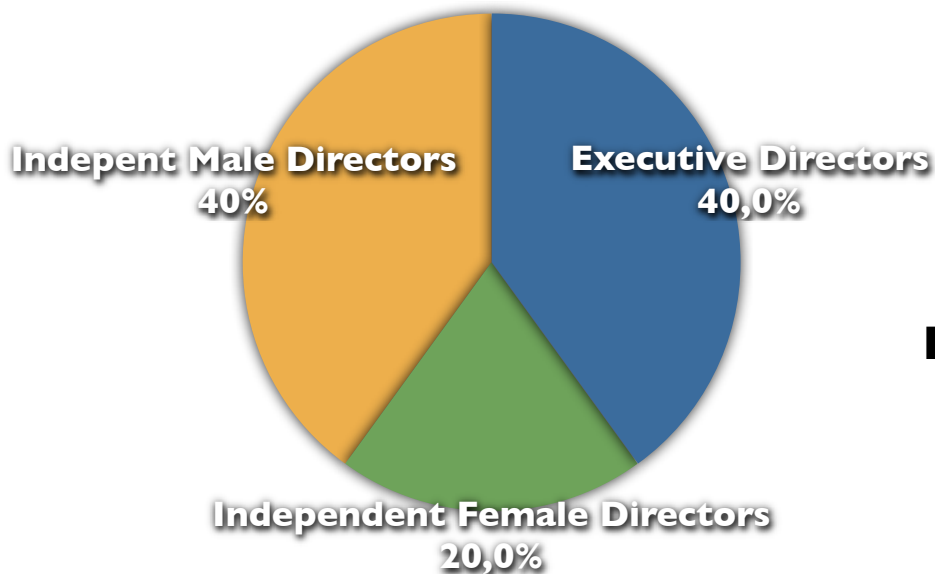
**VC, Investments: 20%**

**Emerging Markets: 10%**

Health: 0%

Social Responsibility: 10%

**Entrepreneurs: 90%**



# **Board Dynamics/Culture Matters!**

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**Corporate Governance =  
Sector Related**

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**Corporate Governance =  
Sector Related**

**What Can We Expect For  
the Future?**



One Hundred Twelfth Congress  
of the  
United States of America

AT THE SECOND SESSION

*Begun and held at the City of Washington on Tuesday,  
the third day of January, two thousand and twelve*

An Act

To increase American job creation and economic growth by improving access to the public capital markets for emerging growth companies.

*Be it enacted by the Senate and House of Representatives of  
the United States of America in Congress assembled,*

SECTION 1. SHORT TITLE.

This Act may be cited as the “Jumpstart Our Business Startups Act”.



*Begun and held at the City of Washington on Tuesday,  
the third day of January, two thousand and twelve*

*An Act*

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**Scales back certain governance and disclosure  
requirements for five years**

**Exemption from requirement to hire an  
independent auditor to attest the internal  
financial controls**

**Longer phase-in periods for new or revised  
financial accounting standards**

**Exemption from “say-on-pay” votes**



# Answers to the JOBS-Act

## Euronext plans small companies exchange

By Kate Burgess in London

A new pan-European stock exchange for entrepreneurs is being planned by NYSE Euronext to plug the gap in funding for small companies and help them raise money from investors more easily.

The exchange – dubbed the “Entrepreneurs’ Exchange” by NYSE Euronext – will facilitate fundraising through new issues of bonds as well as equity. Companies would carry out both initial public offerings of shares and initial bond offerings, and even a “pre-IPO” of convertibles – that is, investments that would in time convert from bonds into equities.

The new exchange, which will be carved out of existing Euronext and Alternext markets, is the latest attempt by policy makers and exchange operators to boost corporate growth following the financial crisis. It comes amid increasing concerns that curbs on bank lending are squeezing small companies.

About 900 companies already listed on Euronext with market capitalisations of less than €1bn would be transferred to the new exchange, as would companies listed in the Alternext, which is Euronext’s share trading platform for small companies.

The move is partly a response to the JOBS Act (Jump Start Our Business Start-ups) in the US, which eased the rules for small businesses raising equity capital for expansion.

NYSE Euronext is also seeking to ban so-called high-frequency trading in such stocks. This involves using superfast computers to trade and hold positions for fractions of a second, and is widely blamed for increasing volatility in small company shares. The exchange said it would seek to ban such trading by placing a levy on the cancellation of orders – a common practice among some high-frequency traders.

There would also be a “foster” market attached to the new exchange which would allow companies to acclimatise for a few years to the requirements of being listed.

Small is beautiful, Page 14

## Bloomberg

### Britain May Ease IPO Rules to Prevent \$15 Billion Drain

By Amy Thomson and Jonathan Browning - Aug 29, 2012

As Avast Software NV (AVST) planned its initial public offering last year, Chief Executive Officer Vincent Steckler considered listing the Czech anti-virus software maker in London before finally settling on the Nasdaq Stock Market in New York. U.K. Prime Minister David Cameron doesn’t want that to happen again.

To attract more technology firms such as Avast, Britain is considering new rules that would make the London Stock Exchange (LSE) more attractive to startups. Taking a page from the Jumpstart Our Business Startups Act approved by the U.S. Congress this year, the government may cut the minimum stake IPO candidates are required to sell, from 25 percent to 10 percent.

“The U.K is looking into adopting elements of the U.S. JOBS Act, relaxing rules including equity listings,” Rohan Silva, a technology adviser to Cameron, said after meeting with entrepreneurs and investors at the prime minister’s Downing Street residence last month to discuss the government’s role in nurturing startups.

Europe could lose companies worth as much as \$15 billion if the region’s 20 to 30 biggest IPO-ready technology firms were to list in the U.S., London venture-capital firm Balderton Capital estimates.

The British government sees a relaxation of IPO rules “as part of the broader effort to create a fantastic ecosystem for startups,” said Neil Rimer, co-founder of Europe’s largest venture capital fund, Index Ventures. “You really can’t be a contender for those businesses unless they have the ability to access public markets.”

#### AIM Listings

While London’s Alternative Investment Market already has looser requirements for startups, it has become a hub for companies that weren’t fully prepared to go public when they sold shares, Rimer said. That’s led healthier companies to shy away from it, he said.

For several years, Prague-based Avast had evaluated European exchanges such as Frankfurt, Amsterdam, and especially London, Steckler said. A key drawback he cited for a U.K. listing is the requirement that businesses offer such a big percentage of their shares. Companies that expect to expand quickly, such as his, often prefer to sell a smaller stake.

“You need investors who understand growth and not just a dividend business,” Steckler said.

#### European Slump



Corporate Governance

Corporate Governance,  
Value Creation and Growth

THE BRIDGE BETWEEN FINANCE AND ENTERPRISE



**It is time to re-direct  
corporate governance  
discussions & research!!!**

**Thank you!**

**[e.p.m.vermeulen@uvt.nl](mailto:e.p.m.vermeulen@uvt.nl)**