The body shop: corporate governance

Management System & Corporate Governance

The management system and governance of each and every organisation is accountable for the maintenance of the organisation's strength and survival in the stiff competition in the business world. The role of the governance imposed by the organisation as a whole should always be open minded for the occurrences of changes in order to adjust and cope with the tremendous development that are happening in the internal and external environment of the organisation. With the constantly changing environment, many people especially those in the working organisation find themselves normally adapting. This is because change can bring many improvement and development in different aspects of competency. In many ways, change can make work easier, pave the way for future innovations or generally improve people's lives. Similarly, change has been adapted by various work organisations for varied reasons.

Important changes in the understanding and management of corporate governance and its impacts on businesses have been developed in the past 10 to 15 years. Various researchers, practitioners and policymakers now acknowledge that corporate governance and its impacts on businesses can be conceptualised from a functional perspective and that appropriate interventions involve the development of alternative measures to cope up. It was also noted that the establishment of a conducive environment for learning and training as an integral component of corporate governance have served effectively in implementing organisational change strategies for transformation. At present, this philosophical shift has extended to various settings, including multinational companies and organisations. Directors here have recognised that some employees do not have the skills and behavioural repertoires necessary to cope with the many expectations and challenges of corporate governance. Hence, these employees may have the tendency to remain contented with their mediocre performances as their alternative way of mitigating these expectations.

Corporate governance pertains to the set of policies that are established in order to make influence in the manner in which an organisation or company is managed, governed or operated. The execution of corporate governance leads to the efficient and effective implementation of the policies and tasks necessary to satisfy a firm’s customers, employees, and management. It also focuses on the careful management of the processes involved in the relationships among all the stakeholders involved (Bhattacharya, 2000).

More often than not, small companies don’t really have the capabilities to implement corporate governance. Instead, these companies engage in activities that various schools of management typically associate with the implementation of corporate governance. These activities include the establishment of rules, policies for decision-making, monitoring and evaluation.

However, corporate governance deals with all operations done within companies and organisations. Activities such as the management of responsibilities, the control of operations, logistics and evaluations are often related with corporate governance. A great deal of emphasis lies on the efficiency and effectiveness of processes. Therefore, corporate governance includes the analysis and management of internal processes.

The Body Shop will be the model business entity that will be used in this research based on their history in corporate governance.

Company Background

A known British chain of cosmetic stores called “ Body Shop” which is found almost all over the world shows tremendous success in previous years is also the company *The Body Shop International plc.* Actually, *The Body Shop* agreed to a £652 million takeover offer by a French cosmetics group L’Oréal on 17 March 2006. *The Body Shop* was founded by Anita Roddick, distinguished for selling its own line of products not tested on animals, and produced in an ecologically sustainable approach (wikipedia, 2006).

The Body Shop aims for sustainable growth as a broad market leader in cosmetics as well as for segment leadership. In both cases, the brands of *The Body Shop* will play a crucial part. *The Body Shop* is able to establish its broad leadership usually by merging with other strong cosmetics companies and their products, which are then combined into a new, larger company. Offering training to its employees, improving the company operations, and the introduction of new beauty products and technologies then reinforces the positions of the various products of *The Body Shop* . This practically results in economies of scale that is able to create a distribution network for both its local and international products. If a market is already in the control of other companies, *The Body Shop* devotes its attention towards the development of a premium segment with its various beauty products.

Discussions

Any business organisation fundamentally exists because it has certain responsibilities to fulfil for the people in the community as well as the various entities comprising it. The organisation has its human entity ranging from the staff, to the managers, board of directors, stakeholders, suppliers and so forth. All these groups have their own set of functions that contribute to the determination of the business goals, the delivery mechanisms of goods and services, and the operational patterns within the organisation. Furthermore, business organisations are part of the larger society where the markets and consumers are targeted and derived. The complexity of the internal and external surroundings of the business necessitates crucial deliberations and decisions in order to ensure the effective and continuous affairs of the organisation. The overall management of the internal and external affairs of the organisation is what basically forms corporate governance.

Basic Definitions

1) Corporate Governance – pertains to the set of policies that are established in order to make influence in the manner in which an organisation or company is managed, governed or operated (Bhattacharya, 2000).

2) Company Performance – can be measured in terms of the efficient and effective implementation of the policies and tasks necessary to acquire the essential goods or services at the best possible total cost of ownership, leading to the overall satisfaction of a firm’s customers, employees, and management (Booms, 1981).

Role of Executive Directors

Executive directors have the primary role to make specific identifications of all the possible sources of evaluation information which includes company performance. This is because aside from the observations of the immediate supervisors, company performance evaluation information can still come from a variety of other sources, including the employees, subordinates, and work products (Einsestat, 2001). For example, whenever *The Body Shop* utilises company performance information from individuals other than the immediate supervisor, the management informs the employees of the possible sources at the start of the company performance cycle, where they receive their company performance plans.

In addition, these executive directors are the people who develop their company's performance plans. The plans are signed by the employees and then passed on to the management for approval. They make sure that company performance plans are complete and adequate before signing the forms (Gonzalez, 2003).

Executive directors also discuss the company performance plans with the employees in a clear and organised manner. Generally, discussions are conducted within 30 days of the start of the company performance cycle.

Role of Non-executive Directors

Non-executive directors document their company's performance and provide feedback to the executive directors from time to time throughout the company performance cycle. Documentation normally occurs in the form of memos, and these are retained in the non-executive directors' confidential files.

Actually, these directors also have the authority to determine substandard or unacceptable company performance (Galpin et al. 2002). They normally address minor or marginal company performance issues through company performance counselling and coaching.

The Body Shop's Corporate Governance

It can be said that the company has a very good framework that has been established in order to deal with different corporate matters. In fact, there is usually a properly structured program that is further reinforced by company policies and other procedures for the proper guidance of the directors in their daily duties. Consequently, the company has a clear reference guide to its business operations and corporate governance. The Board of Directors which oversee the businesses and the decision-making routines as well as the financial aspect of things, keeps watch. In addition, this includes the maintenance of the standards with regards to corporate governance in the corporation's different sectors.

The Board is made up of ten directors; two are executive while six are non-executive. Because of this, there is a fair division of responsibilities and other tasks among them. And while the non-executive directors are independent from the others, they are still able to contribute their experience and knowledge during Board discussions. Without a doubt, The Board is in-charge of caring for the company's operations, assets, and its shareholders. All-in-all, the board aims to work with these factors in the hopes of maximising performance. Because of this, it is The Board that is responsible for the finalisation of budgets and strategic plans. And in order to ensure the firm's competent operations, The Board conducts a monthly review of the company's businesses in relation to its financial movements.

Furthermore, there is a company law that obliges The Board of Directors to carefully prepare each year, a financial report that would have to be accurate and reliable reflecting the true state of the company. All things considered, The Board of Directors is the one that is responsible for the proper safekeeping of accounting statements and to ensure that these records are precise and truthful. In addition, the board is in-charge of guarding the company's other assets as well as making the necessary steps in order to prevent complications such as fraud and other types of risks.

Aside from the board of directors, the company also has other committees as part of their corporate governance. Just like the board, other committees have a well-established reference guide which also discusses their duties and their scope of authority within the corporation. Composed typically of independent directors who are non-executive, the remuneration committee handles the outline for the company's remuneration policy which would eventually be reviewed by the board. Moreover, this group is also responsible for the various remuneration packages that are given to executive directors. On the other hand, there is also a nomination committee which is also made up of mostly non-executive directors. The responsibility of this group is to recommend to The Board on which people should be appointed as directors.

There is also a group known as the audit committee. Compared to the other two, the members of this committee is purely composed of non-executive directors. This group's duty is to make proper recommendations with regards to the company's accounting policies as well as overseeing financial control within the corporation (Sternberg, 1998). For this reason, the committee usually receives and reviews financial reports and other statements delivered to them. Then, they make a comprehensive report before they submit it to The Board. Of course, there is also the group's evaluation of the risks involved which has always been done to assist with the company's next business move, and have further control of the corporation's different operations.

Apparently, *The Body Shop* has a clear code of ethics and all employees must affirm their acceptance of this code. The code of ethics includes a conflict of interest policy to ensure that key corporate decisions are made by individuals who do not have a financial interest in the outcome separate from their interest as company officials. The company also actively monitors compliance with the law and the global financial policies and practices over critical areas. These areas include internal controls, financial accounting and reporting, fiduciary accountability and safeguarding of our corporate assets.

A major factor involved in the improvement of *The Body Shop* involves the establishment and utilisation of company performance measures or indicators that in turn measure their customer's satisfaction. These measures or indicators are measurable characteristics of products and services that the company typically utilises in order to study and improve company performance. The indicators that will be chosen should be able to represent the essential factors that are crucial to the improvement of operational and financial performance. Through the analysis of accurate information brought about by the tracking processes, the measures or indicators themselves can possibly be analysed and improved to support such goals.

Effects of Governance to The Body Shop's Business Ethics and Purpose

The Board has been able to attain complete control of all matters regarding the company. Their self-perseverance and obligation to their duties and finally, their obedience to the company laws all contribute to the development of the corporation. As such, The Board constantly believes that all the data pertaining to financial information and other facts regarding to their operations that are currently being used is reliable. The Board's authority is clearly recognised within the company. And because of this, it is able to have a solid grip on the corporation's actual operations, stakeholders and its financial concerns. Needless to say, because of the corporation's proper structure and its commitment to the stakeholders and to the community as well, the board of directors has proven that it can efficiently handle both its ethical and legal responsibilities.

Furthermore, the company is currently maintaining good relations and open communications with its investors. As a matter of fact, shareholders are regularly invited by the corporation whenever there are gatherings to discuss trade updates. Moreover, whenever there is an annual general meeting, investors get the chance to meet The Board members themselves. And of course, for private investors, they can also access the company's website for various shareholder services. Undoubtedly, the company has good consideration for all of its stakeholders; past, present and future. There definitely seems to be a very well planned framework in the firm's corporate division. It has good policies and procedures with regards to financial matters and operational concerns. Its procedure of assessing the different kinds of situations that come up is certainly a good move on their part. Not to mention, they have maintained good relations with their stakeholders. And finally, The Board's authority is unsurpassed. Clearly, these facts prove the strength of the company's corporate governance structure.

The weakness on this case however, is the fact that it cannot always be assured that there are no losses or other errors which may result from mistakes and inconsistencies by one of the committees or employees involved. In addition, having diverse populations, there can be a possibility of having internal problems between members who have different culture and beliefs. In addition, some problems occur in terms of giving value to the companies' shareholders. There are times that the shareholder is not given the enough information about the status of the company, specifically that shareholder which have a small part in the business. This happens when the board of directors does not give value to their shareholders. Other negative aspects include the imperfection of financial reporting procedures which may definitely result in ineffective corporate governance.

Why it is of interest to diverse stakeholder groups?

The occurrence of corporate governance systems within diverse stakeholder groups reflects the growing difficulty in the management of organisations that require the effective use of valuable resources such as money, materials, equipments, and people. And there is no exception to these. This is the reason why corporate governance systems are being implemented within diverse stakeholder groups in order for them to determine the most effective ways to coordinate these resources through the application of analytical methods derived from fields of studies (Jobber, 1998).

Through this process, group management problems are solved in different ways and alternative solutions are then relayed to the group's management. The management then selects the appropriate course of action in line with their goals. More often than not, corporate governance systems are concerned with complicated issues such as top-level strategy, resource allocation, designing of production facilities and systems, pricing and the analysis of large databases.

For example, the company governance strategies of Heineken are focused mainly on driving the growth of its brands and improving the company's financial performance. These company governance strategies have also helped them secure significant acquisitions and partnerships. And more importantly, these campaigns have led to the release of the potentials of the company's employees, thus building a quality performance- based culture.

On the other hand, Alliance Boots, Europe's leading pharmacy-led health and beauty group came into being with the merger of Alliance UniChem and Boots Group. The merger recognises and strengthens the existing strategies of both entities by combining complementary businesses and strengths to create an international force in pharmacy-led health and beauty while maintaining the Company's commitment to the independent pharmacists through enhanced wholesale distribution and retail services. The company's ultimate aim is to deliver products that make people look and feel their best. In order to do so, the company values performance and continuously strives to fulfil promises to shareholders through setting high standards of practice that are recognised by all internal and external stakeholders. It intends to lead the pharmacy and beauty industries with its products while demonstrating expertise in conceptualising, marketing, selling and distributing its brands (cited in the Alliance Boots website 2006).

From these examples, we may say that corporate governance should set a proper example of good intent, and provide for those lower in corporate hierarchies the clear message that it is “ do as I do” as well as “ do as I say” (Francis, 2000). Middle and lower management find it hard to be ethical when it seems that the top of the corporate hierarchy have no commitment. The message of sincerity will always filter down, and no amount of deception will foster the view that a board is ethical when it plainly is not.

Additionally, the commitment to ethical corporate governance by a board will enhance the prospects of an ethical infrastructure within the organisation. That ethical infrastructure is a manifestation of the commitment, a means of preventing and resolving ethical problems, and an impressive demonstration of sincerity.

Conclusion

As a person with knowledge of corporate governance systems, the author has always brought up to his superiors the viability of strategy formation regarding the analysis of this topic and at times fails to understand the reasons or logic behind certain strategic implementations imposed on it.

By delving into this project paper, the author intended to have better insights into how corporate governance systems are thought up, formulated and then imparted down into the subsidiaries of the company or organisation. The author hoped to have an in-depth understanding as to how the corporate governance systems of companies and organisations are able to compete effectively and profitably in this era of internationalisation where competition is extremely intense.

In order to reinforce the learning objectives, two key focal issues were focused upon i. e. innovation and diversity. Innovation was discussed with regard to corporate governance systems of companies and organisations where they were renowned for their developmental capabilities to constantly innovate. Diversity came under strategic thinking and formation as the author considered the diverse culture, political climate, economic surroundings, social environment, technological settings, government policies and legal systems in order to better understand the issues being discussed.

The results of the analysis carried out on the corporate governance systems of *The Body Shop* indicated very significant effects, even amidst the threats of unrest. Therefore, we could conclude that the corporate governance systems of *The Body Shop* could still be expected to improve faster than average.

The review of the capabilities and resources of the corporate governance systems of *The Body Shop* revealed very little inconsistencies regarding its strategies. This is coherent with their traditional inside-out approach. However, the need to reconcile both the inside-out and outside-in approaches becomes imperative now for *The Body Shop* .

The analysis among the cosmetics industry environment as well as the corporate governance systems of *The Body Shop* and their capabilities revealed certain gaps, most of which are biased towards the industry environment. However, these gaps paved the way towards determining a number of recommended strategic options to secure the competitiveness of *The Body Shop* .

Also, *The Body Shop* has to find a balance between adherence to internal forces within the management and to the changing forces of the environment in order to implement such strategic options.

References:

Allianceboots 2006, *Alliance Boots Website and location of Annual Report 2005* , Available at: http://www. allianceboots. com, Accessed: November 2006.

Bhattacharya, C. B. 2000, Relationship Marketing in Mass Markets, *Handbook of Relationship Marketing* , Thousand Oaks: Sage.

Booms, B. H. 1981, *Marketing Strategies and Organisation Structures for Service Firms* , in Marketing of Services, J. H. Donnelly and W. R. George, Eds. Chicago: American Marketing Association.

Eisenstat, R. A. 2001, *Organisational Dynamics* , pp. 6-14.

Francis, R. 2000, *Ethics and Corporate Governance: An Australian Handbook* . Sydney, N. S. W.: University of New South Wales Press.

Galpin, T, and Murray, P. 2002 *HR Magazine* , issue # 5, pp. 16-20.

Gonzalez, M. 2003, *Journal of Business Strategy* , issue # 5, pp. 9-11.

Grönroos, C. 1994, From Marketing Mix to Relationship Marketing: Towards a Paradigm Shift in Marketing, *Management Decision* , 32 (2),

Jobber, D. 1998, Principles and Practice of Marketing (2nd ed.). London: McGraw-Hill Publishing.

Sternberg, E. 1998, *Corporate governance: accountability in the marketplace.* London: The Institute of Economic Affairs.

The Body Shop 2006, Available at: http://www. thebodyshopinternational. com/. Retrieved: December 7, 2006.

Wikipedia 2006, *The Body Shop* , Available at: www. wikipedia. com, Accessed: November 2006.

APPENDIX

The Body Shop 's Corporate Government

The Board of Directors and management of *The Body Shop* believe that sound principles of corporate governance are critical to obtaining and retaining the trust and respect of stockholders, employees, other stakeholders and the public. The board serves at the discretion of stockholders and works to represent their interests by enhancing business strategies and practices for the creation of long term stockholder value.

Governance Summary

- The board consists of three standing committees: Audit Committee, Compensation Committee and the Nominating and Governance Committee;
- A majority of board members are independent of the company and its management;
- The Audit Committee of the board has established policies consistent with the newly enacted corporate reform laws for auditor independence;
- The independent members of the board meet regularly without the presence of management;
- The charters of our board committees clearly establish their respective roles and responsibilities;
- The company has a clear code of ethics and all employees must affirm their acceptance of this code. The code of ethics includes a conflict of interest policy to ensure that key corporate decisions are made by individuals who do not have a financial interest in the outcome separate from their interest as company officials;
- The company actively monitors compliance with the law and the global financial policies and practices over critical areas. These areas include internal controls, financial accounting and reporting, fiduciary accountability and safeguarding of our corporate assets.