Policy Governance in practice, a case study
Corporate governance as practised by BP plc

Master thesis

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Summary

The topic of this thesis is corporate governance, and more specifically so the role of the board and Carver’s Policy Governance model.

The topic of corporate governance has attracted much attention since numerous corporate scandals, like those of Enron and Parmalat – to name the worst - have shocked the business world, governments and investors. These are commonly denominated as failures of corporate governance and as such have sparked off ‘a search for more effective governance practices’ (Zattoni, Cuomo, 2008).

A prime example is the Cadbury (1992) report which concerned itself with the system of how companies are directed and controlled. It was the first report on codes of good governance and best practices and is to improve corporate governance. Many others were to follow, spreading to a worldwide phenomenon.

Next to an ever burgeoning field of codes and best practices academic literature has come into existence that researches the connection between corporate governance board practices and corporate performance (Hermalin and Weisbach, 2003). Results of these studies are mostly mixed.

Becht, Bolton, and Roël in their 2005 article comment on the lack of formal literature on boards. However, Carver published his model on corporate governance, called the Policy Governance model, already in 1990. It is a theoretical coherent universal model of corporate governance that promises to ‘translate owners’ wishes into company performance’ (2002, p. 8) and does so through the use of ‘nested policies’ in a model consisting of four parts being Ends, Executive Limitations, Board Management Delegation and Governance Process. The Ends stand for what the company wants to achieve. The Executive Limitations stand for what the CEO is not allowed to do to achieve the Ends. Board Management Delegation is how the board delegates its authority to the CEO, and the Governance Process entails how the board governs itself. In the model, the use of committees is an important topic. Their use is not to compromise board holism, as is usually the case with committees (Carver, 2006).

Just as the formal literature on board theory is scant (Becht, Bolton, and Roël 2005), Carver’s model has been under-researched and overlooked. There have been five empirical studies into Carver’s Policy Governance (Brudney and Murray, 1998; Gordon, 2000; Brudney and Nobbie, 2002; Hough, 2002; Nobbie and Brudney, 2003). Four of these are questionnaire based and the fifth is a multi-case case study that does not go in depth. All of
these are concerned with non-profit organisations. The results of the studies are favorable towards Policy Governance but much remains to be researched.

This thesis is novel in multiple aspects. It is the first study into Policy Governance that takes as its subject a for-profit organisation – a publicly traded one; it is the first study to do a single-case study; and it is the first one to investigate if the adoption of the model leads to superior comparative performance, using accounting measures of performance.

The purpose of the study is twofold. The first aim of this study is to conduct an explorative single-case study into the practical application of the Policy Governance model by British Petroleum (BP) plc over a period of 17 years, 1997-2013.

The second aim of the thesis is investigating if the practical application of the Policy Governance model by BP plc leads to superior comparative performance in terms of ROE, ROA and NPM, when compared to its direct competitors.

The general overarching question for the first aim is: What is BP’s practical application of the Policy Governance model over the period 1997-2013? This question is divided by the build-up of the model itself as presented in Carver’s *Boards that Make a Difference (2006)*, producing sub-questions.

What is BP’s practical application of the Ends policies?
What is BP’s practical application of the Executive Limitations policies?
What is BP’s practical application of the Board Management Delegation policies?
What is BP’s practical application of the Governance Process policies?
What is BP’s practical application of the use of committees policies?

The single-case study is augmented with performance data to answer the question: Does the practical application of the Policy Governance model by BP plc lead to superior comparative performance when compared to its direct competitors? A number of key measures of performance of BP will be compared with that of its main competitors in its industry. These competitors are the other so called Big Oil companies, Shell, Total, Chevron, and Exxon. The accounting performance measures are return on equity, return on assets, and net profit margin.

BP’s practices unmistakably bear resemblance to Carver’s Policy Governance model. Most notably the use of nested policies and the four main parts Ends, Executive Limitations, Board-Management Delegation and the Governance Process. BP’s use of the model did not materially change over the 17 years.

BP has a very clear End, ‘to maximize long-term shareholder value’, although the End misses the relative worth component. Next to one final goal, BP’s yearly strategy is to be
executed by the CEO, for which the CEO is held accountable to the board as a whole. His remuneration is bound to the execution and long term performance. A small part of CEO salary comes from a yearly salary; by far the greater majority of compensation is dependent on making the Ends and avoiding the Limitations.

Executive Limitations should be a clear demarcation of what is not ‘OK’. However, BP operates in an inherently risky environment. The Executive Limitations are altered to the exigencies of its industry and have therefore some build-in leeway; they are not as strict as one might expect.

In BP’s Board Process Policy it is laid out that the chairman has extensive power. He is allowed to make any decision or any action as long as this is in line with board policy. This power could potentially intervene in the strict role division between board and CEO and muddle the accountability of the CEO. This is a major difference with Policy Governance’s clear demarcation of accountability between the board and CEO.

Another big difference is that regarding committees. BP uses them as an extension of the board to reduce work-load. They have the authority to make board decisions for the entire board in their field of responsibility. The decisions should be in line with the board as the decisions should follow the board’s own policies, but could potentially be a danger to board holism.

According to the measures of performance, the net profit margin and the ratios return on equity and return on assets, the use of Carver’s Policy Governance model does not give BP superior performance vis-à-vis its direct competitors. Amongst its four competitors, Shell, Total, Chevron and Exxon, the measures analyzed from 2002-2006 under US GAAP show that BP performs below average. Amongst BP’s two competitors, Shell and Total, the measures analyzed from 2004-2009 under IFRS show that BP performs average to below average.

In important ways do the outcomes of the study contribute to existing literature/knowledge about corporate governance and more specifically Policy Governance. Firstly, the qualitative study is the first and only one of its kind: a single-case study, and more over one into an equity (for profit) organisation. The study provides an insight into the practical application of the model over a period of seventeen years in a major publicly traded organisation.

It is also the first study to investigate whether the practical application of the model leads to superior comparative performance amongst a group of direct competitors. This particular study has found it does not.
1. Introduction

The importance of corporate governance almost speaks for itself. Numerous corporate scandals, like those of Enron and Parmalat – to name the worst- have shocked the business world, government and investors. These are commonly regarded as corporate governance failures and as such have sparked off ‘a search for more effective governance practices’ (Zattoni, Cuomo, 2008). Or, in other words, since then ‘there has been an international trend towards developing and implementing corporate governance mechanisms to fight against the opportunistic behaviors that have undermined investors’ credibility in financial information’ (Garcia-Meca, Sanchez-Ballesta, 2009). Maassen and van den Bosch (2011) find the starting point of what they call the worldwide ‘corporate governance revolution’ at the corporate scandals in the 80s of the previous century; the scandals involving Maxwell, Bank of Credit and Commerce International and Polly Peck. The more recent scandals have given the research into corporate governance an important impulse (Maassen, van den Bosch, 2011).

There are a multiple of definitions of what is or constitutes corporate governance. Becht, Bolton, en Roël (2002); Shleifer and Vishny (1997); the OECD (1999); Ratnatunga and Ariff (2005), etc. all use different definitions of corporate governance. Carver’s definition is the following: ‘Corporate governance (...) simply means the role of the board of directors (Carver, 2002, p. xix). The board of directors, their role, behaviour and the corporate governance model that either guides or blinds them is the focus of this thesis.

The Cadbury (1992) report concerned itself with the system of how companies are directed and controlled. It was the first report on codes of good governance and best practices and many were to follow, spreading to a worldwide phenomenon. According to Carver (2010) piecemeal improvements that have come from the efforts to improve corporate governance so far will never lead to a new potent system that brings the best out of corporate governance and corporations. By little improvements over time a typewriter will never become a Pentium processor. The system currently in place, although much improved, will not allow for effective and efficient oversight by non-executives, to the detriment of shareholders and other stakeholders of a company.

Next to an ever burgeoning field of codes and best practices academic literature has come into existence that researches the connection between corporate governance board practices and corporate performance (Hermalin and Weisbach, 2003), of which results are mostly mixed. Composite measures or indices have also been made, as they are thought to better capture corporate governance quality than a single measure. These are the G-index (Gompers, Ishii and Metrick (2003), the Gov-score index (Brown and Caylor, 2006), the E-
index (Bebchuk, Cohen, Ferrell, 2009), and the Gov7 score (Brown, Caylor 2006). Brown, Beekes and Verhoeven (2011) say of the indices that ‘the methods employed are largely arbitrary, being hampered by the fact that we do not have an agreed theory of corporate governance to guide variable construction or to indicate which aspects should receive greater weighting’ (p. 104).

Other scholars have also commented on the dearth of formal literature on boards (Hermalin and Weisbach, 2003). Becht, Bolton, and Roël (2005) find that in contrast to the large empirical literature on the composition of boards and selection of board members on which scholars have mainly focused; issues as formal analysis of the role of boards of directors, how they should be regulated, function, or how their meetings can be structured to ensure more effective monitoring of management, is almost non-existent but equally important. Becht, Bolton, and Roël (2005) therefore conclude that the formal literature on boards is ‘surprisingly thin given the importance of the board...’ (p. 24). This seems to be a particularly fruitful area for future research (Becht, Bolton, and Roël, 2005).

Judge (2009) clamors for a new theory of corporate governance. ‘We are seeking to find a parsimonious, generalizable, and accurate theory of corporate governance which can explain and predict corporate government practices and outcomes throughout the global economy’ (Judge, 2009, p. iii). In that same journal, Corporate Governance: An International Review, Carver makes a case for a global governance theory. He argues that instead of the petty improvements and best practices that succeed each other in rapid fashion, each of them claiming to have ‘got it’, the nature of corporate governance needs to be taken into account. ‘Because governance is a social construct rather than a natural phenomenon, theory must be driven by and anchored in the purpose of boards rather than derived from analyses of current practices’ (2010, p. 150).

According to Carver, governance should be centred on the board, and not the CEO. It is the board that ‘(a) establishes its expectations of the company and (b) demands evidence of achievement’ (2007, p. 1035). Around these first principles Carver has built up a theory which he calls Policy Governance. It posits governance as an owner-representative function rather than a management function.

Carver published his model on corporate governance in 1990. It fills a void and much heard complaint that the field of corporate governance lacks specific board theory (see above but take also for example Hermalin and Weisbach, 2003). Carver made a theoretical coherent universal model of corporate governance that promises to ‘translate owners’ wishes into company performance’ (2002, p. 8) and does so through a model consisting of
Just as important aspects of board functioning are under-researched, so is Policy Governance. Since its inception, proliferation and adoption there have been only five studies into the model (Brudney and Murray, 1998; Gordon, 2000; Brudney and Nobbie, 2002; Hough, 2002; Nobbie and Brudney, 2003) and the model remains obscure and arcane even though the studies all have positive outcomes for Policy Governance. Four of these studies are questionnaire based and the fifth one is a multiple-case study that does not go in depth. A single in depth explorative research -or any research- is a welcome addition that will benefit the scant empirical literature on Policy Governance.

In 2010 Carver wrote ‘A Case for Global Governance Theory: Practitioners Avoid It, Academics Narrow It, the World Needs It’. In this essay is mentioned that BP plc would be excellent for a case study. BP plc is a huge oil and gas company that operates both upstream with exploration, field development and production; and downstream with fuel, lubricants and petrochemicals. With assets over 305 billion (2013) US dollar, 83,900 (in 2013) employees and ranked sixth biggest in the world by revenues (2012), BP is the largest publicly traded company to have adopted Carver’s Policy Governance model.

According to Jeremy Booker, former vice-president of corporate governance at BP, policy governance ‘can enhance the ability of corporations to compete in the market. [it] Should deliver ever greater and lasting returns to shareholders.’(2004). BP plc has taken up the Policy Governance model in 1997 and is still working with this model. The call to study BP plc has not yet been answered and this thesis thus will be the first to do so. The first aim of this study is an explorative single-case study into the practical application of the Policy Governance Model by British Petroleum (BP) plc over a period of 17 years, 1997-2013. This aim is divided by the build-up of the model itself as presented in Carver’s Boards that Make a Difference (2006), and its distinctive role for committees, producing five sub-questions. Each of these five general (empirical) sub-questions are consequently further divided by specific sub-questions providing a comprehensive overview of the practical application of the model.

1. What is BP’s practical application of the Ends policies?
What are the Ends of BP? How many layers does it have? How is the relative worth component reached? What is the importance ascribed to the Ends policies? How are the Ends evaluated? What happens when these are not met?
2. What is BP’s practical application of the Executive Limitations policies?
   What are the Executive Limitations policies of BP? How many layers does it have? What is the importance ascribed to these policies? How are the Executive Limitations policies evaluated? Are the Limitations ever crossed? What happens when the limitations are crossed?

3. What is BP’s practical application of the Board Management Delegation policies?
   What are the board’s Management Delegation policies? How many layers does it have? How is the CEO directed? Who does the CEO report to? What is s/he accountable for? Does the board direct other executive officers besides the CEO? How is the CEO monitored? Is the CEO monitored and judged on issues different from or next to Ends and Limitations policies? On what principles is CEO compensation based?

4. What is BP’s practical application of the Governance Process policies?
   What are the board’s Governance Process policies? How many layers does it have? Are all issues dealt with through policy? How is made sure that board meetings are efficient and effective? Has a CGO been appointed? What is the board’s stance towards its job? What about the individual members? How is information about owners’ wants and needs gathered? How important is this information to the board? How does it find its way into policies?

5. What is BP’s practical application of the use of committees policies?
   What are the board’s committees policies? How many layers does it have? Which committees are made use of? What kind of work do they do? What is their relationship with the board? Do they make recommendations?

   In order to assess whether or not the Policy Governance model can really deliver ‘ever greater and lasting returns to shareholders’, or whether it really adds value as Carver’s book title Corporate Boards that Create Value (2002) suggests, a number of key measures of BP will be compared with that of its main competitors in its industry. These competitors are the other so called Big Oil companies, Shell, Total, Chevron, and Exxon. Since this is the entire population no statistical regression is necessary; after all, it is a technique used to make claims about a population while sampling a part of the particular population. The measures are accounting measures of performance, as measured by return on equity (ROE), return on assets (ROA), and net profit margin (NPM). With the use of these measures the performance of a firm can be assessed. ROE, ROA and NPM are the standard measures to do so and are the traditional approach to decomposing profitability (Palepu et al, 2005).
The second aim of the thesis is investigating if the practical application of the Policy Governance model by BP plc leads to superior comparative performance as represented by ROE, ROA and NPM, when compared to its direct competitors.

Accounting measures of performance feature prominently in research that seeks to establish a correlation between corporate governance and performance. MacAvoy et al. (1983) was the first to use accounting measures of performance to examine a correlation between performance and the number of outside directors on a board. (This correlation was not found, neither by successive studies (Hermalin and Weisbach, 1991; Mehran 1995; Klein 1998; Bhagat and Black, 2000)). Bauer, Guenster and Otten (2003) compare accounting measures of performance of well-governed companies versus poorly governed companies. The idea is that better governed firms have more efficient operations (Jensen and Meckling, 1976). This study measures the performance of the Policy Governance model versus the orthodox model.

In important ways Policy Governance should drive performance, different from the orthodox model of governance. The general overarching aspect is that the model provides clarity. Policy Governance makes very clear what is the CEO’s job and what s/he should and should not do. It also makes very clear what is the board’s job and how the job can be best undertaken. This is to prevent both meddling or micro-managing as well as rubberstamping by the board, ‘and drives company performance by defining its expectations of the CEO’ (Carver, 2002, p. 81).

The thesis is ordered in the following way: In chapter two an overview is given of the literature relevant to the topic of corporate governance in relation to the two main questions of this study. In chapter three the methodology of how the research questions are answered is given. In chapter four the results are displayed and chapter five holds the conclusion.
2. Literature analysis

This chapter offers a synthesis of the literature of corporate governance relevant for this thesis and is the basis for the empirical research of the study. It covers the following topics starting with the historical roots of and theories on corporate governance, and corporate governance as it is currently practised in practice. This is followed by the codes and best practices of governance that aim to improve governance, where after performance measurement of governance is discussed. Hereafter some of Carver’s ideas on governance are given which are followed by an explanation of his model, Policy Governance. In chapter 3 his model is enlightened in greater detail. The chapter finishes with an overview and critique of the studies that have been done into Policy Governance.

2.1 Historical Roots and Theories

A number of theories and their relevance for corporate governance are discussed. As the subject of this thesis is the role of the board, the theories will logically pertain to this area.

The importance of corporate ventures in a capitalist society is manifest. Blair states that ‘In fact, corporations ... are surely some of the most important institutions for wealth creation in capitalist economies (1998, p. 195). According to Coase (1935) corporations reduce costs of information and transaction. This is because companies function as a nexus of contracts and so ‘the coordination of explicit and implicit contracts that it provides is more efficient than producing the same goods or providing the same services by contracting for each of the needed components of the business in the market’ (Hemingway, 2012, p. 100). This is contractarian theory.

Williamson (1981) continued on this trend by developing transaction cost economics. Williamson finds the moral justification of the existence of companies in the reduction of costs on the level of the society.

Alchian and Demsetz (1972) theorize that an important motivator for the existence of companies is that of synergy: two can do more than one. This is the theory, or more so ‘problem’ of team production as it needs a monitor to counter shirking of workers and keep the synergetic advantages. As the board of directors is at the top of a company, they are the nexus of the contracts as the spider in the web (Bainbridge, 2002), it is their task to both govern and monitor the company. Finally, it is the residual claimant, the shareholder, who monitors the board of directors.

In relation to the above theories, of contractarian theory, transaction cost economics and synergy, the advantages that companies bring can be negated when
Corporate governance is poor. As was the case with Enron that went from being the seventh-largest company in the US to bankruptcy, burning economic value as it fell; or Parmalat, hailed as ‘a jewel in Italian commerce’ until extensive corporate fraud was brought to light. Other companies that suffered in consequence of a failure of corporate governance are Xerox, Worldcom, Cisco, Cirio, Ahold, Global Crossing, etc.

When companies’ corporate governance is deemed to be good, the companies are rewarded with lower costs of raising external capital. On the one hand because corporate governance is to give the assurance that investors get a return on their capital; that their wealth is not appropriated (Shleifer, Vishny, 1997). And on the other hand because market competition, made all the more powerful through globalization and information technology, pressures corporate governance too to outperform itself- ‘for yield and thus advantage’ (Williams, Zumbansen, 2011, p. 1). Corporate governance itself is to add value to the company.

Although the term corporate governance is a recent coinage as it was introduced in the 1980s (Santen, de Bos, de Rooy, 2006) the root of corporate governance can be traced back to Adam Smith’s famous quote: ‘The directors of such (joint stock) companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnership frequently watch over their own’ (1776, p. 606-607).

The first theory to be discussed is Berle and Means’ separation of ownership and control (1932). They wrote the following iconic quote that comments on the separation of ownership and control (management) of modern corporations: ‘The property owner who invests in a modern corporation so far surrenders his wealth to those in control of the corporation that he has exchanged the position of independent owner for one in which he may become merely recipient of the wages of capital’ (p. 3). It is then the question whether or not a manager, director or executive manages the company to the benefit of the owners or himself, ‘The answer to this question will depend on the degree to which the self-interest of those in control may run parallel to the interests of ownership and, insofar as they differ, on the checks on the use of power which may be established by political, economic, or social conditions’ (p. 121).

This last quote brings us to the second theory, from the separation of ownership and control to the agency problem or theory. Agency theory is the dominant theory on which corporate governance is based. Agency theory is one of power. How do I get one to operate in my best interest (and not in theirs)? The agency theory is formed by Jensen and Meckling in 1976. Its supposition about man is that he wants to maximize his own wealth and that he
does so opportunistically. This means that instead of paying out more dividend, the agent might decide for the company that the director (himself) needs an airplane, or deserves a higher wage. (Moreover, research has shown that ‘excess consumption of lavish perquisites by the corporation’s leader often has pernicious effects on the corporate culture’ (Carcello, 2009)).

The shareholder of the company is the principal, who orders the agent to lead the company in his stead. Because of dispersed shareholding, dispersed ownership, it is very difficult for shareholders to make a fist against management and their interests. In order to balance the two interests, between agent and principal, or to heed this problem, corporate governance has come into existence.

The theories of separation of control and management, agency and the problem of team production (synergy) are relevant because they offer a theoretical explanation for sub-optimal results and/or the expropriation of funds from a company, to the detriment of the shareholders. There are two other theories that are discussed next, the stakeholder theory and stewardship theory. These approach corporate governance from vastly different perspectives. Stakeholder theory moves forward form the point of view that companies have to create value for stakeholders of which shareholder are one, and stewardship springs forth from a different view of man.

Stakeholder theory and the idea that corporations have stakeholders was popularised by Freeman’s book Strategic Management: a Stakeholder Approach (1984) and ‘has now become commonplace in the management literature’ (Donaldson, Preston, 1995, p. 65). Just as the agency theory, the theory of the stakeholder is simple. The company has to take into account and is responsible to other groups, besides the stockholders, that have a stake in the company. A much quoted definition of stakeholders is that of the Stanford Research Institute: ‘those groups without whose support the organisation would cease to exist (SRI, 1963). Freeman and Reed (1983) refer to this definition as the narrow sense of stakeholder. As the broader sense of stakeholder they give the following definition: ‘Any identifiable group or individual who can affect the achievement of an organisation’s objectives or who is affected by the achievement of an organisation’s objectives’ (p. 91).

Stakeholder theory and thinking affects corporate governance to the extent that when the board makes strategic decisions they will need to have analysed how these will affect stakeholders and therefore the company. There is an economic rationale for that because focussing only on power relationships between stockholders and management ‘may even destroy wealth-creating capacity’ (Blair, 1998, p.199). And also a normative as “The firm” is a system of stakeholders operating within the larger system of the host
society that provides the necessary legal and market infrastructure for the firm’s activities. The purpose of the firm is to create wealth of value for its stakeholders by converting their stakes into goods and services’ (Clarkson, 1994). By being part of the whole, the corporation should create value for the whole. Stakeholder theory is at stake with agency theory in so far as agency theory treats other stakeholders as instrumental to the shareholder wealth, whereas stakeholder theory treats other stakeholders as normative (De Wit, Meyer, 2010).

The last theory to be discussed is stewardship theory. Depending on the researchers, it is seen as either complementary to agency or contrasting with agency (Daily, Dalton, Canella, 2003). Stewardship has its roots in sociology and psychology. Unlike agency theory, stewardship theory sees man as motivated to act in the best interest of their principals because his behaviour is pro-organisational and collectivist. ‘Even where the interests of the steward and the principal are not aligned, the steward places higher value on cooperation than defection’ (Davis, Schoorman, Donaldson, 1997, p. 24). This is because rationally the steward sees a higher utility in cooperation as he believes his interests are aligned with that of the corporation and its owners. A steward protects and maximizes shareholders’ wealth through firm performance, because, by so doing, the steward’s utility function is maximized. This view makes the shareholder-manager dichotomy defunct.

Stewardship theory fits well within stakeholder theory ‘because most stakeholder groups have interests that are well served by increasing organizational wealth’ (Davis, Schoorman, Donaldson, 1997, p. 25).

In terms of corporate governance this means that directors should act as stewards of a company (and not as self-serving, opportunistic individuals), as they should do as required by company law in Anglo companies because of their fiduciary duty towards the shareholders of the company (Turnbull, 1997, p. 190). However, in light of the scandals of corporate governance and other theories of corporate governance, this theory is not very convincing.

2.2 Corporate Governance in Practice

The basics of corporate governance in practice looks as follows. It is focussed around the corporate board, the body that governs the company. The corporate board consists of two parties, the executive directors and non-executive directors. The latter’s solely role is to present the interests of the shareholders. Their role is a supervisory one of the executives. It is the non-executive directors that are to keep oversight of public companies for the sake of the shareholders.

Typically, in America and the UK the so called one-tier board is in operation, and in
In continental Europe the two-tier board. A one-tier board is one in which both the executive and non-executive directors operate in one and the same board. Classically, the CEO of the company is also chairman of the board. It often makes use of special commissions such as auditing commissions and remuneration commissions. These are led by non-executive directors. A two-tier board is one in which the executive and non-executive directors are split. The supervisory board consists of non-executives alone and the management board consists solely of executive directors. The non-executives are led by the chairman and the executives by the CEO.

In practice, the CEO calls the shots. It is the CEO that has the greatest responsibility and is offered the greatest reward for his efforts. It is the CEO that reports to the board. The board, next to oversight, offers expert advice and connections. It is regarding the oversight role that boards are often criticized. They either micro-manage and thereby limit the CEO in his/her full potential, or they take too distanced an approach to their job and allow for the excesses described above, like those of Enron and Parmalat. The latter phenomenon is also called rubberstamping. These two problems have been noted by many observers (Crucker, 1974; Geneen, 1984; Gillies, 1992; Icahn, 2009; Levitt, 1998; Lorsch and Maclver, 1989; Becht, Bolton, Roël, 2005). Interestingly, non-executive directors are not normally prosecuted after a corporate scandal.

Another observer/commentator is Shefrin, he finds that CEO pay varies too little regarding their performance (‘good’ CEO’s get paid a lot, ‘bad’ CEO’s still get paid a lot albeit a little less), there is too little CEO dismissal for poor performance, and corporate stock options do not appear to play a major role in aligning the interests of executives and investors (Shefrin, 2007). This is to the discredit of the board, as it is they who determine pay, dismissal and stock option bonuses, but ultimately at the cost of the owners and other stakeholders.

2.3 Best practices, Codes of Good Governance

The publishing of the Cadbury Report in 1992 is seen as the starting point of publications of best practices and codes of good governance. These reports focus on ‘the system by which companies are directed and controlled’ (Cadbury, 1992) and offer guidelines on how that best be undertaken. The codes are designed to address deficiencies in the corporate governance system, by recommending a set of norms aimed at improving transparency and accountability (Zattoni, Cuomo, 2008). After the publication of the Cadbury report more than one-hundred reports concerning corporate governance have been published worldwide. The United Kingdom is ahead with the publishing of these
codes- from 1992 up to 2010 it has published no less than 25. The reports focus on the themes that are central to corporate governance: the relation between institutional investors and enterprises of which they own shares, the function of boards in public listed companies, the role of the external auditor and the internal control of enterprises (Maassen, van den Bosch, 2011).

The specific issues the codes and best practices have focused on are shareholder’s rights, employees’ rights, board meeting and agenda, separation of Chaiman and CEO, board composition and independence, board directorship, deontology for directors, conflict of interests, election term/term limits, mandatory retirements, evaluation board performance, directors’ remuneration, remuneration committee, nomination committee, and audit committee.

### 2.4 Performance Measurement

Next to an ever burgeoning field of codes and best practices academic literature has come into existence that researches the connection between corporate governance board practices and corporate performance (Hermalin and Weisbach, 2003). The practices most researched are the following: board structure, ownership structure, anti-takeover measures, CEO turnover and CEO pay. Of all these practices but for one, the research outcomes are mixed, and no certain claims can be made of the connection with performance. The notable exception is CEO turnover, of which there is ‘solid evidence’ that it is inversely related with performance (Brown, Beekes, Verhoeven, 2011).

Composite measures or indices have also been made, as they are thought to better capture corporate governance quality than a single measure. These are the G-index (Gompers, Ishii and Metrick (2003), the Gov-score index (Brown and Caylor, 2006), the E-index (Bebchuk, Cohen, Ferrell, 2009), and the Gov7 score (Brown, Caylor 2006). These indices range from 7 practices to 51 which are all given equal weight, thereby implying equal importance to governance of each practice and that these are complements rather than substitutes. There are also a number of firms which have made their indices to rate other firm’s corporate governance. These indices are called Accounting and Governance Risk (AGR) by Audit Integrity, the Corporate Governance Quotient by ISS, and there are others. The indices range up to 500 practices or rather elements. Brown, Beekes and Verhoeven (2011) say of the indices that ‘the methods employed are largely arbitrary, being hampered by the fact that we do not have an agreed theory of corporate governance to guide variable construction or to indicate which aspects should receive greater weighting. Relations between these indices and firm performance are not consistent (Bhagat et al.
2008) and Daines (et al. 2010) reports that the predictive power of these is virtually non-existent. Bebchuk and Hamdani (2009) remain positive of these metrics and suggest that they should take into account whether or not a company has a controlling shareholder, (that they should take into account the ownership structure) for the metrics to be relevant. Bhagat, Bolton and Romano (2007) in contrast argue in their article the promise and peril of corporate governance indices that ‘there is no one ‘best’ measure of corporate governance’ and that the most effective governance institution appears to depend on context, and on firms’ specific circumstances’ (p.1). The results of the relation between governance practices and performance questions the usefulness of the corporate governance codes and best practices that tend to have a normative character.

2.5 Enter Carver

Carver is of the opinion that by piecemeal improvements like the many guidelines, codes of best practices and principles of good governance the field of corporate governance cannot advance much. The improvements get stuck in specifics and are anecdotal; in one instance the given advice might work very well, in another instance it might not. This seems to be the explanation why the results for research into the connection between corporate governance and firm performance yield mixed results. Common failings for boards are that they spent time on the trivial, have a short term bias, take a reactive stance; that they review, rehash and redo, circumvent the CEO by directly engaging with and directing or judging staff, suffer from diffuse authority and are sometimes overladen with work. Prescriptions then about activity and involvement would either be more involvement or less involvement, more scrutiny or less scrutiny, etc. (Carver, 2006)

What is necessary according to Carver is a ‘carefully crafted and integrated set of concepts and principles applicable to all instances of the board phenomenon’ (2010, p. 149), that will be ‘a coherent framework of fundamental, global principles upon which each board’s individual practices can be left to vary in recognition of contextual and cultural particulars’ (p. 150). And as ‘governance is a social construct rather than a natural phenomenon, theory must be driven by and anchored in the purpose of boards rather than derived from analyses of current practices.’ The purpose of boards is to represent owners and to transform owner value (what owners want) into corporate performance.

As pointed out in the introduction, with his theory and model Carver fills a void and
much heard complaint that the field of corporate governance lacking theory on the board level.

With his model Carver proposes a whole new system where the *gravitas* of corporate governance is shifted from the executives to the non-executive directors. It is the non-executives that determine the goals of the company, the limitations of the means by which to attain these goals, and demand evidence of achievement. His system is to prevent both meddling and rubberstamping by the non-executives. The ‘new’ system, called Policy Governance model, is to better safeguard shareholder interest and to make for a more efficient and effective company. The model looks as follows:

2.6 The Policy Governance Model

Carver makes quite some claims, ‘I submit a new standard of what quality means in a board’s work.’ And he states that his work redefines excellence in governance’ and he does see he is presumptuous (Carver, 2006, pp. xx, xxi). ‘The intend of the Policy Governance model is to bring greater precision to the challenge of translating owners’ wishes into company performance’ (Carver, Oliver, 2002, p. 27).

Carver clearly separates the board in two parts, the non-executives that command, lead, set the goals and limitations and monitor; and the executives who execute. When Carver speaks about a board that follows the Policy Governance model, he means the non-executives, because it is they that govern. Carver speaks of a trinity, that of executives, CEO and staff. ‘The CEO role is sufficiently different from that of both board and staff that the common two-role-relationship between governance and operations (board-staff) would be better conceived as a three-role phenomenon (board-CEO-staff)’ (Carver, 2006, p. 161).

The model is about policy, and transferring owner’s values to company performance through policy. The policies are made by the board (the non-executives). Values are guides to action and these need to be brought out of the unspoken arena and made explicit and this is done so by policy.

Through policy the entire organisation can be controlled. First, policies are made at the broadest level that are all encompassing. Then, each following policy will be more specific and therefore controlling more specific but still be nested in the previous policy. The executives have the right to make decisions within these levels of policy in order to attend to the day to day business of the company. Until the majority of the board member are willing to accept ‘any reasonable interpretation’ (Carver, 2006, p. 61) of the policy they must continue making policy on a smaller level. How policy can control at the broadest level
until acceptable small levels is shown in the next figure. The board should control all it must, not all it can. By policies, the board controls at the broadest level and is proactive, instead of being concerned ad hoc with executive issues and being reactive.

Figure 1. A Nested Set of Policies

Note: Smaller issues fit within larger issues, as smaller bowls fit within larger ones. The entire set can be controlled by handling only the outermost bowl. (Taken from page 61, Boards that Make a Difference, 2006.)

The Policy Governance model has four main parts. These are Ends (goals), Executive Limitations (means to be avoided), board-management delegation (the interface of board and management), and Governance Process (the practice and process of governance itself). The Ends are the results the organisation wants to achieve and relate to the long and short term; they are the ‘set of values about an intended impact on the world’ (Carver, 2006, p. 48). In an equity company it means what results are to be achieved for the shareholders and the relative worth of these results as in return on equity, return on shareholder investment, compounded growth in annual earnings, etc. (Carver, Oliver, 2002).

The Means to be avoided or Executive Limitations are worded negatively; which values, which means to an end are unacceptable. This leaves an almost infinite number of options of means open for the executive that are all effective, prudent and ethical; as all ineffective, imprudent and unethical means are clearly unacceptable.

Board-management delegation is how the board relates to management. The CEO is accountable to the board for the entire company and the board speaks to the CEO as one board with one voice and does so through policies. Monitoring takes place systematically.

The last quarter of the quadrant concerns how the board governs itself; the policies about the process of governance. ‘A board that cannot govern itself cannot hope to govern an organization’ (p. 185). For the process of board governance a policy document is created as well, and an office, the Chief Governance Officer. ‘Without a good system, personality becomes the dominant characteristic of any confrontation’ (p. 196). The most important task of a board is a linkage between the owners and the company.

Finally, the model has a distinctive role for committees. These can be a danger both
to the CEO and board holism because they can intrude in staff level issues and because committees are only a subsection of the board. Under the chapter methodology the model is described in greater detail.

**Figure 2. Board Policy Making**

![Diagram of Board Policy Making]

*Note: The four quadrants of the model and the levels of policy are shown. The CGO has authority to make decisions in the space marked ‘X’; the CEO in the space marked ‘Y’. (Taken from page 74, Boards that Make a Difference, 2006.)*

### 2.7 Empirical studies into the Policy Governance model

In total there have been only five empirical studies into the Policy Governance model, exclusively or in part. The first one is Brudney and Murray’s (1998) and looks at intentional efforts of boards to improve their performance. A questionnaire was sent out to the CEOs of 3,310 Canadian non-profit organisations. 851 usable returns were received. Some of the results that have relevance to this thesis are that boards that had undergone a planned change effort were seen as having improved effectiveness in general; and that the specific governance model employed for guidance on the intentional change effort makes no difference on the perceived measure of success; but that the adoption of a model has a higher perceived measure of success than the adoption of no model. This would mean for the Policy Governance model that it is better than no model, but not necessarily better than any other model. Of this results the authors say that ‘this finding could have resulted because no model was in fact more successful than any other, because some models were applied ineptly, or because the CEO respondents tended to believe in the models adopted by their boards, *whatever they might be*, and therefore had a biased tendency to view them
as effective’ (p. 343).

The article is frank in its self-criticism. Only a small number of the questionnaires were returned, 26%. Also, the results are based on subjective perceptions of only one ‘data point’ of each organisation, being the CEO. Another bias that could have affected the results is the subdivision of the reply rate. 50% of the respondents used a model or framework. Of this group 52% (154 respondents) stated that they had applied Policy Governance exclusively. 12.5% stated they used it in combination with other approaches, 6% used United Way’s board development model alone, while 2% used it in combination with other models. The remaining 30% was shared under the ‘other’ category. Because of the high reply rate of those using Policy Governance, the result of it is probably representative, whereas the low reply rate of those using another model is probably not. It is possible that only those with a high perceived success filled in and returned the questionnaire. And ‘Carver points out that self-reported ‘Carver users’ should not be confused with actual users’ (Hough, 2002, p. 9). Because of these shortcomings the results are of limited value and further research is a necessity.

The second empirical study is Gordon’s (2000) and studied judgements of board effectiveness by board members and CEOs in 32 organisations in the US by way of the Board Self-Assessment Questionnaire (BSAQ). The questionnaire was based on Jackson and Holland’s (1998) ‘Six Dimensions’ of board competence. 11 of these organisations used policy governance and the 21 other organisations used traditional practices. The outcome was that although CEOs of Policy Governance boards believed their boards to be more effective in understanding and taking into account the organisation’s culture, norms and values, the overall effectiveness was just as much as traditional boards.

This study has the same shortcomings as the study of Brudney and Murray (1998) with possibly a bigger bias in the returned questionnaires as 32% of boards using Policy Governance and only 5% of boards using a traditional model returned the questionnaire. Another issue is the appropriateness of the BSAC questionnaire itself. Jackson and Holland (1998, p. 168) themselves conceded that reliability, face validity and content validity all ‘suffer a sort of theoretical incestuousness’ and content validity depends on the theory being used. Hough (2002) points out that ‘few of the questions relate to such issues as appropriate delegation and control, or accountability of the CEO. These are issues which are presumably important issues for governance effectiveness, on which Policy Governance boards should perform very well by comparison to traditional boards’ (p. 10).

The third empirical study is a study of Brudney and Nobby (2002) and surveys 51 trainer consultants - a response rate of 55%- who graduated from Carver’s Policy
Governance Academy about their experiences with implementing the model in non-profit boards. The results are that more than half of the consultants teach the model as a whole and that those who only teach parts teach nearly all the parts. The latter group indicates that they support the whole-model emphasis but that they have to compromise on the level of implementation, up to a level the board being counselled will tolerate. The consultants found that implementation of policy can be challenging because it is so different from the traditional practise; and that board size of over 15 members and organisations with no hierarchy have a negative effect on implementation. The consultants indicated that they feel Policy Governance is far superior to other models.

Hough, (2002) is of the opinion that the ‘findings are more important for what they do not find than what they do’ (p. 10) Hough, McGregor-Lowndes and Ryan (2004) find the findings’ not surprising’ (p. 215). Hough (2002) expands on this by writing that ‘if the study had found that the consultants considered the model impractical, then that would have been a significant finding. However, it is hardly surprising that consultants, who had voluntarily elected to pay thousands of dollars to attend a five-day course with Carver, believed the model has the potential to improve board performance’ (p.10).

Brudney and N Robbie (2002) are aware of the predisposition of the consultants but also write that the consultants ‘have formed knowledgeable opinions regarding the difficulties and the strengths of the model’, and that they ‘hear the concerns and questions of the boards as they consider new methods of governing’ (p. 391). Or in short, that their perspectives and experiences (...) are unique and valuable’ (p. 392). I find this study more valuable than the previous two discussed.

The fourth empirical study is by N Robbie and Brudney (2003) and tests the implementation, board performance and organisational effectiveness of the Policy Governance model in non-profit boards of directors. Its aim is to ‘investigate whether the policy governance model (...) presents a viable alternative to traditional board practices’ (p. 572). This was done by board members, chairpersons, and CEOs of 32 organisations that had adopted the model filling in a questionnaire. Hough, McGregor-Lowndes and Ryan (2004) say of this study that it ‘significantly advances our understanding of the effectiveness of Policy Governance’ (p. 215).

One of the novel aspects of the study is that it measures the level of implementation (0, 25, 50, 75, 100%) of the Policy Governance model with the use of a survey with statements of board behaviour that Policy Governance model boards would show. The study thereby finds a solution to the criticism of self-reporting of the use of the model and more objectively measures the level of Policy Governance implementation. It also allows for statistical testing of hypotheses. Another novel aspect of the study is that it compared
results of the Policy Governance boards with two control groups, one a random sample of non-profits, and the other a sample of non-profits that had undergone board development and training with the National Center for Nonprofit Boards (NCNB, now Boardsource). For both the control samples, only the CEO filled in a questionnaire.

The results were that boards that had adopted Policy Governance perceived that the performance of their board has improved (improved to greatly improved). This was done by asking the question ‘On a scale of 1 to 9, where [1] means ‘Worsened Greatly,’ [5] means ‘Remained the Same,’ and [9] means ‘Improved Greatly,’ would you say that since adopting the Policy Governance model, the way the board of directors of this organization performs its duties has worsened, remained the same, or improved? (Emphasis in questionnaire)’ (p. 578).

Organisational effectiveness was divided into five areas, goal achievement, financial viability and resource acquisition, internal processes, CEO job satisfaction and CEO performance. A statistical significant relationship exists between the level of adoption of the model and goal achievement, internal processes, and CEO job satisfaction.

The results of Policy Governance organisations were compared with the two control groups, that comprised of CEOs only. The results show that greater performance is met in respect to goal achievement and CEO satisfaction in comparison to a random sample. There is however, no evidence to suggest that the performance of Policy Governance organisations is superior to that of organisations that have received training of the NCNB. Nобbie and Brudney (2003) write that this supports the finding of the earlier study of Brudney and Murray (1998); ‘no one model or combination of models proved to be more strongly associated with perceived success of a board change than any other.’ And that ‘it could also be reasonably proposed that solid board development programs may have comparable potential to contribute to the effectiveness of non-profit organisations- or that a serious commitment on the part of a non-profit board to a program of development can yield high returns’ (p. 592). It should be kept in mind however, that Brudney and Murray (1998) pointed to the possibility that just the adoption of a model can lead to higher perceived success. Carver (2006) parries the former concluding statement by asking what effectiveness really is, and that the results are contaminated by what the CEOs and board members in general think is the role of the board. The Policy Governance is about transferring owner’s wishes into company action with a supervisory board that governs, whereas orthodox thinking sees the board as only having a supervisory and advice role. Comparing effectiveness is therefore comparing two different things. The same holds for the measures of organisational effectiveness.

Another concluding comment of Nобbie and Brudney (2003) is that it appears that CEOs like operating under the policy governance model as they rank their job satisfaction as
very high. Especially the autonomy and use of discretion when managing, the clear lines of authority and decision making between the board and themselves, and the framework on their reporting responsibilities are highly rated. ‘Policy governance seems to alleviate the long-standing problem of board members meddling in the day-to-day affairs of the organization’ (p. 593). Carver (2006) said of board or CEO satisfaction that it may or may not be useful (p. 320). And many studies imply that effectiveness in governance is to be judged by whether board members are more fulfilled, challenged, or involved; or whether the board raises more funds etc. (p. 337). Carver says that his model is not build for the benefit of the board or CEO or their satisfaction, but to ensure owner-accountable organisational performance (p. 178). However, in the case of the use of Policy Governance, if CEO satisfaction springs forward from salient features of the model it shows that the model works in practice.

The fifth empirical study is the report by the (Canadian) Institute on Governance called Governance DO’s & DON’TS, Lessons from Case Studies on Twenty Canadian Non-profits, written by Mel Gill and published in 2001. She distinguishes between seven hypothetical ‘Governance Models’ perceived as having relatively discreet characteristics’ (p. 10), and gives a short description of those. The models are operational, collective, management, traditional, Policy Governance, corporate and constituent representational. The description of Policy Governance is wrong. It states: ‘It does not use committees.’ This is false.

The backdrop of the study has been ‘substantial concern’ that the promotion of Carver’s ‘one size fits all’ model has drawn attention away from alternative models...’ Carver’s model is not a ‘one size fits all’, it is a universal model with universal principles. The true issue seems to be that supposedly Carver’s Policy Governance is the one true way. Of this Carver says, it is absolutely incorrect. ‘There undoubtedly are other paradigms of governance that would be just as universally applicable as Policy Governance, but they have not yet emerged’ (2006, p. 322). Hough (2002) says that however immodest, Carver’s claim remains correct. ‘The other, so-called, models of governance fall into two categories. The first category of ‘models’ is merely descriptive of different categories of boards. These ‘models’ are clearly not intended to be conceptual models, but mere categorization. The second category of models are merely lists of perceived better practice. In the latter category, there are striking omissions in the so-called models. Even in Chait, Holland and Taylor (1996), the most coherent and best researched of the other approaches, the issue of delegation is not addressed’ (p. 6). Therefore, the dichotomy used in this study, is that of Policy Governance versus orthodox governance.
Of the twenty cases of Gill’s study seven use Policy Governance to a greater or lesser extent. Of the one organisation that solely and completely uses Policy Governance she writes that ‘the board has done exemplary work in development of an organisational structure and governance policies to support a ‘Policy Governance’ approach to the fulfilment of its responsibilities’ and that ‘the board generally appears to work quite well’ (p. 41). However, very little further information is given about the use and workings of Policy Governance. The case study does not go in depth; for a twenty-case case study this is not surprising. An in depth case study can address this issue.

It can be stated that the Policy Governance model is under-researched as there is a lack of empirical evidence on and studies into the working of the model in practice. The planned thesis therefore fills up an academic void. The Policy Governance model can also be called overlooked as the few studies that have been done are all relatively old and there are no newer studies into his model. In the most recent book publications on both profit and non-profit governance Carver is not even mentioned. This is unfortunate as the studies that have been done are positive about the effects of the model. This thesis hopes to put Carver’s Policy Governance back on the map of academic research by a single-case study. The single-case is augmented with performance measurement data.

This chapter gives a synthesis of the literature and is the basis for the empirical research further explained in the next chapter. Corporate governance goes as far back as Adam Smiths’ Wealth of Nations (1776) and is still relevant today, judging from the many failures of corporate governance.

The current practice of corporate governance focusses on the corporate board which is dominated by the CEO, with the non-executives representing owners interests’ imperfectly. The best practices and codes of good governance are to, as the name implies, improve governance and have focused on a whole range of specific issues. Corporate performance measurement, however, has not been able to find a correlation between a single measure (except for CEO turnover and performance) or composite indices of good governance (Brown, Beekes, Verhoeven, 2011).

Carver is of the opinion that for the field of corporate governance to make progress ‘a coherent framework of fundamental global principles’ is necessary. One that he has made, the Policy Governance model, is to transfers owner’s value to company performance through policy. There have been five studies into the model with positive results for the model. These have been questionnaire based and are superficial multiple-case studies. The model can be called under-researched and over-looked. Further research, therefore, is warranted.
3. Methodology

This chapter motivates the research method chosen and justifies the choice of its tools and how these are operationalised. It first states the qualitative research question, where after it goes into depth; and in the second part it states the quantitative research question, where after it goes into dept.

3.1 Qualitative analysis

The first aim of this study is to conduct an explorative single-case study into the practical application of the Policy Governance model by British Petroleum (BP) plc over a period of 17 years, 1997-2013. It does so by dissecting Carver’s theoretical Policy Governance Model and comparing and contrasting this with the governance practices of BP. By comparing and contrasting, similarities and differences show. In this way it is enlightened how BP uses the Policy Governance model in practice over seventeen years.

The research question, how did BP plc apply the Policy Governance model from 1997-2013? is divided by the build-up of the model itself as presented in Carver’s Boards that Make a Difference (2006), producing sub-questions. In particular this book is chosen out of Carver’s many publications because ‘It is the single most inclusive text on the model’ (Carver Governance, 2014). An analysis that follows this build-up is allowed to be comprehensive.

The model, and sub-questions, is built up in the following way, Ends, Executive Limitations, Board Management Delegation, The Governance Process, and the use of committees. The sub-questions are consequently further divided by specific sub-questions, again, following Carver’s ‘single most inclusive text on the model’, providing a comprehensive overview of the practical application of the model. These questions can be used for research into other companies that use the Policy Governance model and can become standard questions for research into the use of the Policy Governance model in practice. The sub-questions are:

1. What is BP’s practical application of the Ends policies?
   What are the Ends of BP? How many layers does it have? How is the relative worth component reached? What is the importance ascribed to the Ends policies? How are the Ends evaluated? What happens when these are not met?

2. What is BP’s practical application of the Executive Limitations policies?
   What are the Executive Limitations policies of BP? How many layers does it have? What is the importance ascribed to these policies? How are the Executive Limitation polices
evaluated? Are the Limitations ever crossed? What happens when the limitations are crossed?

3. What is BP’s practical application of the Board Management Delegation policies?
   What are the board’s Management Delegation policies? How many layers does it have? How is the CEO directed? Who does the CEO report to? What is s/he accountable for? Does the board direct other executive officers besides the CEO? How is the CEO monitored? Is the CEO monitored and judged on issues different from or next to Ends and Limitations policies? On what principles is CEO compensation based?

4. What is BP’s practical application of the Governance Process policies?
   What are the board’s Governance Process policies? How many layers does it have? Are all issues dealt with through policy? How is made sure that board meetings are efficient and effective? Has a CGO been appointed? What is the board’s stance towards its job? What about the individual members? How is information about owners’ wants and needs gathered? How important is this information to the board? How does it find its way into policies?

5. What is BP’s practical application of the use of committees policies?
   What are the board’s committees policies? How many layers does it have? Which committees are made use of? What kind of work do they do? What is their relationship with the board? Do they make recommendations?

   An ‘ideal’ answer to these questions according to Carver’s model and why are given in the following parts of this chapter (3.1.1 to 3.1.5). In chapter 4 an answer is given to these questions according to BP.

   Since the breadth of the research I opt for the single-case study. On case studies a polemic exists between Eisenhardt (1989;1991) and Dyer (1991). Eisenhardt is of the opinion that multiple-case studies need to be presented in research because they ‘permit replication and extension among individual cases (p. 620)’. It permits to compare and contrast for the building of better constructs. On the other hand, Dyer is a champion of the single-case study, as it allows for a greater discussion of context, a deeper description of the case and for a more memorable story. ‘As Martin and Powers (1983) demonstrated experimentally, stories are often more memorable than statistical demonstrations of ideas and claims...We can vicariously experience the ideas and claims presented. We therefore remember them longer and understand them more complexly than had they been
The thesis presented appreciates practical. Single Governance is, therefore, a governance that is studied and researched. There are misconceptions of the breadth of the study, as more suitable.

The reason for choosing BP for the single-case study is, next to theoretical, also practical. To my knowledge no other publicly traded or for-profit company has adopted the model. A thorough search online gives no results. I have also entered in correspondence with the International Policy Governance Association (IPGA). They do not know which for-profit companies make use of the model. Even BP’s use would have remained unknown were it not for the call to research in Carver’s 2007 article.

Single-case studies have often been criticised. This criticism is based on misconceptions. In his 2006 paper Flyvbjerg corrects these misconceptions and re-appreciates and re-values the case study. For example, he writes that ‘the force of example is underestimated’ (p.12) and that for a thorough understanding of subject matter, single case studies are a necessity (p.5). Furthermore, case studies can have excellent reliability (p.19) because they contain ‘a greater bias toward falsification of preconceived notions than toward verification’ (p.21). He finishes with an insight of Kuhn, ‘a discipline without a large number of thoroughly executed case studies is a discipline without systemic production of exemplars, and that a discipline without exemplars is an ineffective one (p.27).’

This study will be the first single-case study into Policy Governance; it will also be the first study on Policy Governance used by an equity company; and the first to take a 17 year overview.

To answer the research questions the annual reports of BP are used as source material. The annual reports of BP in particular contain a wealth of information on corporate governance as each of BP’s annual reports have a chapter on corporate governance. This allows the qualitative investigation into its corporate governance to be possible. The annual reports and in particular the chapters on corporate governance of the annual reports are perused for their explanation of the practical application of the Policy Governance model by BP. Annual reports are a source freely and openly available and therefore easily accessible to the general public including the scholar.

BP’s ‘Board Governance Principles’ document is also used. As the name points out, BP’s governance principles are described in this document. Different in name, these are BP policies. This document is available on PB’s site under the topic of ‘governance’.
Interviews have the advantage of asking questions of why and how decisions are made and of being able to follow up on questions. Interviews produce very rich data sets but are costly in terms of time for both the interviewer and interviewee.

I was fortunate enough to have had the opportunity to interview Mr. Antony Burgmans. As longest sitting non-executive of BP he is a heavy weight; having joined the board in February 2004 and by the 2014 AGM will have served ten years. He has served in the nomination and remuneration committees and is chairman of the ad-hoc board committee on Russia. Before his directorship at BP he had the position of CEO of Unilever and currently holds next to his BP function six other directorships. Antony Burgmans has a wide experience with different systems of corporate governance and in-depth of BP’s and is therefore an excellent candidate for an interview. I have been able to ask him a number of questions, which can be found in appendix 3, on which he gave an extensive reflection. Mr. Burgmans wished not to be quoted. Therefore, the transcripts are not added to the thesis. The interview functions as a background interview, the results of which have been incorporated in the thesis.

Other modes of research are a questionnaire study, interviews and direct observation of board meetings. Questionnaire studies are suitable for research into multiple cases and comparing these. The academic research done so far into Policy Governance has relied heavily on this method as the literature analysis pointed out. Questionnaire studies alone do not lend themselves for richer (in-depth) studies because of their nature (yes, no questions, ten or seven point scales). A clear drawback of this method is the possible low response rate, which would question the reliability of the findings. This mode is not chosen because the aim is a richer study, and also because of the response rate as the questionnaire would be sent to only one company, and could very well be zero.

Through direct observation of board meetings the findings from the archival study and background interview could have been validated or discredited. For example, does the board of BP truly govern only through the use of policies?

Interviews and direct observation are called field study. They share the drawback that permission for their execution, conducting interviews and ‘doing’ direct observation, can be problematic. For this thesis, an interview was granted, which greatly benefits the study. Direct observation of a board meeting has not proved feasible. Direct observation of a board meeting would have given a richer, more in-depth study.

3.1.1 Ends. What is BP’s practical application of the Ends policies?

For equity companies, this is relatively simple and consists of results, recipients and relative worth. Equity companies exist to create shareholder value. The recipients then, are
the shareholders. As these are all more or less different, a debate should take place that honours the diversity in the ownership base; that culminates in defining the relative worth component. ‘For example, achieving the long-term, high results desired by one class of shareholder may seem of sufficient value to justify also accepting short-term, low results that another class of shareholders wishes to avoid’ (Carver, Oliver, 2002, p. 64).

What are the Ends of BP? How many layers does it have? How is the relative worth component reached? What is the importance ascribed to the Ends policies?

‘Evaluation (...) must be an integral to governance’ (...) (Carver, 2006, p. 105). ‘Evaluation of Ends is important to leadership for three reasons: it discloses unacceptable deviation from desired values; enables the board to relax about the present so that it can keep its mind on the future and keeps board policies constantly in the spotlight, thereby making them more likely to be amended as they grow out of date’ (p.106).

How are the Ends evaluated? What happens when these are not met?

3.1.2 Executive Limitations. What is BP’s practical application of the Executive Limitations policies?

‘What is not OK, even if it works? (...) The board’s challenge is to be reasonably certain that nothing goes awry and at the same time to grant as much unimpeded latitude as possible to those with the skill and talent to get the work done’ (Carver, 2006, p. 115-116). ‘Executive Limitations policies can give both the board and its CEO the freedom to be innovative, bold, and attentive to their respective jobs’ (Carver, 2006, p. 113). As with Ends, Executive Limitations work with layers starting from the broadest level. This makes sure no policy vacuum is left and all possibilities are covered.

What are the Executive Limitations policies of BP? How many layers does it have? What is the importance ascribed to these policies?

The Limitations must not be mistaken for staff issues like personnel, supply, risk, reporting, etc. The Limitations must be concerned with policies of ethics and prudence. ‘Apart from being prudent and ethical, the activities that go on at and below the level of chief executive are completely immaterial’ (Carver, 2006, p. 120-121). By delineating ahead of time what is unethical and imprudent the board is proactive.

Both the Ends and Executive Limitations policies are subject to a reasonable interpretation of the CEO. ‘Any staff practice that fits within a reasonable interpretation of this range must be considered acceptable.’ A reasonable interpretation is one that can be demonstrated to the board as one that a reasonable person might make, given the same
policy wording. The reasonable interpretation rule is ‘akin to the ‘prudent person’ test common in the law’ (Carver, 2006, p. 129).

*How are the Executive Limitation polices evaluated? Are the Limitations ever crossed? What happens when the limitations are crossed??*

3.1.3 Board Management Delegation. What is BP’s practical application of the Board Management Delegation policies?

In Carver’s system the different roles of the board and CEO are made explicit and clear and organisations function best with a strong CEO. ‘A powerfully designed CEO position is a key to board excellence’ (Carver, 2006, p. 154). As made clear in Ends and Executive Limitation the CEO has a lot of freedom, as long as s/he is effective, prudent and ethical. The other side of the medal is that in the Policy Governance model the CEO is also accountable for the entire company to the board.

The board is not to interfere in single issues, but to only guide and control through policies. In order to prevent individual non-executive advice to the CEO from becoming instructions or being taken as instructions the board is to only speak officially to the CEO with one voice, when a majority of the non-executives have agreed upon policy. The board is not to direct other executives or staff members as to do so would be subversive of the CEO’s power and would disturb accountability.

*What are the Board’s Management Delegation Policies? How many layers does it have? How is the CEO directed? Who does the CEO report to? What is s/he accountable for? Does the board direct other executive officers besides the CEO?*

Again, monitoring plays an important role. ‘In policy Governance, the word monitoring always means a comparison of reality to policy (Carver, 2006, p.163). This is done with a two-step process. ‘First, the CEO must demonstrate to the board that he or she has used a reasonable interpretation of the board’s policies. Second, the CEO must provide evidence that the interpretation has been fulfilled’ (Carver, 2006, p. 166). Carver is adamant that the CEO is evaluated only according to Ends and Executive Limitations. ‘Organisational performance and CEO performance are the same’ (p. 168).

*How is the CEO monitored? Is the CEO monitored and judged on issues different from or next to Ends and Limitations policies? On what principles is CEO compensation based?*
3.1.4 The Governance Process. What is BP’s practical application of the Governance Process policies?

It is the board members and the not staff that hold the responsibility for the integrity of governance. In Carver’s eyes it is the board that morally fulfils the stewardship function. It is therefore the board itself that is responsible for its ‘attendance, discipline, governance methods, development, agendas, and ability to envision the future’ (Carver, 2006, p. 190).

In order to deal with the implications of being a group governance policies should be drawn up to prevent personalities from becoming the dominant factor in meetings, and exigencies of immediate dynamics determining the agenda. Carver proposes that ‘one way in which boards can initiate good process is by creating explicit policies concerning the topic within the Governance Process category’ Carver, 2006, p. 196).

Next to that, it is also paramount that boards keep ruling through policies. This is a challenge. ‘The greatest single discipline for the board to learn is the discipline of dealing with every issue through policy’ (2002, p. 106). Carver introduces the title of Chief Governance Officer instead of the title Chair(wo)man, to stand as a guardian for effective and efficient board meetings. Other functions of the CGO are communicating the board’s decision to the CEO and to the media. It is the board’s spokesperson.

What are the board’s Governance Process policies? How many layers does it have? Are all issues dealt with through policy? How is made sure that board meetings are efficient and effective? Has a CGO been appointed?

The most important job of the board and its overall reason for existence is the bridging of the company, those who run it, with the owners of the company. ‘The board’s mega product (as opposed to that of the organisation) is the bridge built between those to whom the board is accountable and those who are accountable to the board’ (2006, p. 197). Carver divides this up in three sub-products, being linkage to the ownership, explicit governing policies and assurance of organisational performance. The board’s linkage to the ownership is transforming informed owner values into corporate performance (Carver, 2010, p. 153). ‘The board should continually struggle to define and link with its ownership. It should do so with the same vigour that it would if the owners were organized and looking over the board’s shoulder’ (p. 204). The last quote calls to mind Adam Smith’s with which the literature analysis started.

Carver states that in order to achieve linkage, what is important first is the non-executives’ stance and attitude towards their job. The non-executives need to believe they are the moral trustees of the owner and act like that. Secondly the non-executives should
‘gather statistical evidence of the owner’ concerns, needs, demands, and fears, which can be done by third parties, surveys etc.; and thirdly the board members can engage in direct contact with owners and their representatives.

*What is the board’s stance towards its job? What about the individual members? How is information about owners’ wants and needs gathered? How important is this information to the board? How does it find its way into policies?*

### 3.1.5 Committees. What is BP’s practical application of the use of committees policies?

Committees can be a danger both to the CEO and board holism because they can intrude in staff level issues and because committees are only a subsection of the board. As has been pointed out above, it is paramount that accountability and responsibility of the CEO and board are not mushed. Therefore committee work should not be concerned with staff level work.

The idea of a board is that the board makes decisions as representatives of owners. The authority and accountability of the board is compromised if sub-sets of the board make decisions, which is normally the case because committee recommendations are accepted. Committees do have a right and use to exist. This is to do work of preparation, of choices and their consequences, of decisions taken by the entire board. This is work of policy alternatives and their implications.

*What are the board’s committees policies? How many layers does it have? Which committees are made use of? What kind of work do they do? What is their relationship with the board? Do they make recommendations?*

### 3.2 Quantitative analysis

The most common mode of research in finance is quantitative (because mathematics supply simple, certain answers in a chaotic, uncertain world. This is comforting (Frankfurter, Mcgoun, Allen, 2004, p. 464)).

The single-case study is augmented with performance data. To answer the question: *Does the practical application of the Policy Governance model by BP plc lead to superior comparative performance when compared to its direct competitors?* A number of key measures of performance of BP will be compared with that of its main competitors in its industry. These competitors are the other so called Big Oil companies, Shell, Total, Chevron, and Exxon. Since this is the entire population no statistical regression is necessary; after all,
it is a technique used to make claims about a population while sampling a part of the
particular population. The measures are accounting measures of performance, as measured
by return on equity, return on assets, and net profit margin.

Return on equity: ‘The starting point for a systematic analysis of a firm’s
performance is its return on equity. ROE is a comprehensive indicator of a firm’s
performance because it provides an indication of how well managers are employing the
funds invested by the firm’s shareholders to generate returns’ (Palepu et al., 2005, p. 199).
The formula for ROE is net profit divided by shareholders' equity.

Return on assets: ‘Return on Assets tells us how much profit a company is able to
generate to each Euro of assets invested’ (Palepu et al., 2005, p. 200). The formula for ROA
is net profit divided by assets.

Net profit margin: ‘The ratio of net profit to sales is called net profit margin or return
on sales (ROS). The profit margin ration indicates how much the company is able to keep as
profits for each Euro of sales it makes’ (Palepu et al., 2005, p. 201). The formula for net
profit is net profit divided by sales.

With the use of these measures the performance of a firm can be assessed. ROE,
ROA and NPM are the standard measures to do so and are the traditional approach to
decomposing profitability (Palepu et al, 2005).

Accounting measures of performance feature prominently in research that seeks to
establish a correlation between corporate governance and performance (MacAvoy et al,
1983; Hermalin and Weisbach, 1991; Mehran 1995; Klein 1998; Bhagat and Black, 2000;
Bauer, Guenster and Otten, 2003).

This study is the first to compare performance data of a company that implemented
the Policy Governance model with companies that use orthodox governance. As explained
in the literature analysis, the dichotomy chosen is that of Policy Governance versus all other
‘models’, grouped under orthodox governance models, as Carver’s model is the only one
that is universal and theoretically complete. The annual reports are controlled if by chance
any of the other companies use Policy Governance and therefore making the comparative
analysis of Policy Governance versus orthodox governance invalid. This is not the case.

In order to be able to do quantitative research a researcher needs enough samples
and these samples need to be comparable with one another. In 2010 the accident in the
Gulf of Mexico with the Deepwater Horizon oil platform took place. It is the largest
accidental marine oil spill in the history of the petroleum industry, which BP is still cleaning
up. In order to cover all the costs from claims, settlements, natural resource damages and
other costs they have instituted a 20-billion dollar trust fund (BP, 1-10-2014). The accident
had a severe impact on BP and its performance (measurements) and makes these incomparable with the other Big Oil companies. Therefore the performance measurements are taken from 2002-2009.

For the quantitative analysis, the annual reports of the companies of the comparative analysis, BP, Shell, Total, Chevron and Exxon are used, for the years 2002-2009. Although BP adopted the model in 1997, the comparison starts from 2002 because of the hurdle of finding older annual reports on-line of the various companies. The annual reports contain the data necessary for the performance measurement. These data are sales, net profit, assets and owners’ equity. These are cold and hard numbers that reduce company operation to a single number and greatly lack context. The quantitative and qualitative studies therefore complement each other. A qualitative study is ‘ideally suited to archival research using reliable secondary data sources’ (Smith, 2011, p. 54). A drawback of the data from the annual report is that these could have suffered from accounting distortions.

This chapter set out how the two main research questions will be answered. The qualitative question pertaining to the practical application of the model will be answered by comparing and contrasting the theoretical model with that of BP’s practical application, following the build-up of the theoretical model: Ends, Executive Limitations, Board Management Delegation, Governance Process, and the use of committees.

The quantitative question pertaining to comparative superior performance will be analysed with the accounting measures ROE, ROA, and NPM.
4. Results

This chapter shows how the methods of research are used for the study and provides a justification of the data analysis/gathering. It also provides a judgment on the quality of the collected data and its process. Furthermore, the results on the research questions are given. Finally, limitations of the research findings are mentioned. First the qualitative analysis is set out, according to the build-up of the Policy Governance model and the sub-questions. Second is the quantitative analysis. It shows figures with the outcomes on ROE, ROA and NPM.

4.1 Qualitative analysis

The first aim of this study is to conduct an explorative single-case study into the practical application of the Policy Governance model by British Petroleum (BP) plc over a period of 17 years, 1997-2013. Thus, how did BP plc apply the Policy Governance model from 1997-2013?

All annual reports up to 2013 are source material. The annual reports of 1997 and 1998 form the foundation for BP’s practices and of the study. The governance practices are tracked from 1997 upwards. Like this, important changes throughout the years of the use of the model can be given, although over this time BP did not materially change it governance practices. The interview can affirm this. BP makes public online its principles by which it governs. Different in name, these are BP’s policies. These ‘Board Governance Principles’ are reviewed and updated every year and represent its newest policies. The study was only able to use BP’s latest set of ‘Board Governance Principles’. Source material for this study are BP’s annual reports from 1997-2013, BP’s latest ‘Board Governance Principles’ (02-07-2014), and the background interview with Antony Burgmans, BP’s longest sitting non-executive. BP’s use of the model is contrasted and compared with Carver’s theoretical one.

The practical application of the Policy Governance model by BP is explored and presented in the format of the questions below - the sub-questions- which follow the build-up of the Policy Governance model as set out in Boards that Make a Difference (2006). This build-up is chosen because the book Boards that Make a Difference (2006) is ‘the single most inclusive text on the model’ (Carver Governance, 2014). An analysis that follows this build-up is allowed to be comprehensive.

The quality of the information that is brought forth is of a high quality. The annual reports of BP and it’s ‘Board Governance Principles’ contain an abundance of information on how BP uses the model. The process to acquire the information has been a systematic reading of the annual reports and a comparing and contrasting of these and the ‘Board Governance Principles’ with Carver’s theoretical model as set out in his 2006 publication.
The interview, in so far as the same topics came up, affirms, and thereby validates the findings and conclusions, of the archive study. My conclusions from the interview are that the flexibility of the Policy Governance model allows for the accommodation of new laws and regulations, and for the changing of emphasis within the model; that a close and important connection of the board with the shareholders of the company exists and that their interests are championed; that the board is one in which all the non-executives are actively involved and committed to; and that the CEO that has the liberty to act powerfully and is also held accountable and responsible.

What now follows is a broad description of BP’s Policy Governance policies. A more concise description can be found in appendix 1. In appendix 2 a very brief overview is provided of BP’s similarities and differences vis-à-vis the Policy Governance model. It shows a ‘measures’ of the extent to which policy governance is implemented.

‘The board adopted in 1997 a set of governance policies that cover its relationship with shareholders, the purpose of the group, the conduct by the board of its own affairs and its relationship with the group chief executive’ (PB, 1998, p. 75).

It is this quote that captures best the corporate governance practices of BP. It is this exact same sentence that features in the successive reports up to and including 2000. Up to and including 2013 BP did not materially change its governance practices. The practices unmistakably bear resemblance with Carver’s Policy Governance model: The linkage of ownership and management; it contains End policies, Board Governance Process policies and Board-Management Delegation policies. The Executive Limitations policies are not named, but these also form integral part of BP’s Policy Governance policies.

4.1.1 Ends. What is BP’s practical application of the Ends policies?

What are the Ends of BP? How many layers does it have? How is the relative worth component reached? What is the importance ascribed to the Ends policies?

The Board Governance Principles first chapter is ‘The BP Goal’. It only has one layer and simply and clearly states in one sentence that ‘The purpose of the Group is to maximize long-term shareholder value through the allocation of its resources to activities in the oil, natural gas, petrochemicals and energy businesses’ (BP, 2014,p.2). This statement is devoid of a relative worth component. In 1997 and 1998 there was however a relative worth component, ‘the pay-out policy is 50% of estimated average earnings through the business cycle’ (BP, 1998, p.3). In terms of importance, the dividend payout has increased every year since 1997 up to 2009. Respectively from $18
cents per share to $56, right through the financial crisis. In 2010 a mini dividend was paid of $14 cents in the last quarter, the preceding three having been cancelled in order to secure liquidity after the Deepwater Horizon explosion and oil spill because of a ‘crisis of confidence in BP within the financial markets’ (BP, 2010, p. 6); The accident that ‘threatened the existence of BP’ (BP, 2010, p.10). In the years thereafter dividend payments ceased to be a key performance ratio. In all probability, the BP Goal was altered in 2010/11 to take into account the new reality.

The annual reports are permeated with the purpose of the company, that of generating value for the shareholders, for example: ‘the non-executives’ role is as champions of shareholders’ interests’ (BP, 2002, p4). The interview confirms this.

In practice, next to one global End the board determines yearly Plans. These are made in two-day strategy meetings (BP, 2005, p. 160). From 1997 to 2009 these have focused mostly on mergers, cost cutting, performance on cash returns, and safety; in 2010 in managing the oil spill and from 2011 to 2013 on safety, trust, and value. Next to the main points there is a whole battery of smaller strategic points like reserves, discoveries, regional performance etc.

*How are the Ends evaluated? What happens when these are not met?*

‘The board’s role is to set general policy and to monitor the application of the policy by the group CEO. The group chief executive explains how he intends to deliver the required outcome in annual and medium-term plans, the former of which include a comprehensive assessment of the risks to delivery. Progress towards the expected outcome is set out in a monthly report that covers actual results and a forecast of results for the current year’ (BP, 2001, p. 29).

The table below shows that the annual bonus is directly related to strategic targets set. When Ends are not met no bonus, or very little, is awarded. For example in 2006, 7 and 8 bonus payments were low, whereas in 2000 bonus payments were very high. Director remuneration consists of a number of parts. These are regular salary, annual bonus, performance shares; and pension payments and benefits.

By far the greatest compensation comes from performance shares. These are awarded under the Long Term Performance Plan. From 1997-1999 this was solely on the basis of shareholder return against the market (SHRAM) in relation to the other oil majors. From 1999 onwards the measures earnings per share (EPS) and return on average capital employed (ROACE), were also used. The performance shares are granted at the end of each
year over a three year period, based on performance; after which they are locked (vest) for three further years.

Figure 3. Annual Bonus

<table>
<thead>
<tr>
<th>Measures</th>
<th>Weight</th>
<th>Threshold</th>
<th>Target</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety and operational risk management</td>
<td>50.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss of primary containment</td>
<td>10.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process safety 1 events</td>
<td>10.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recordable injury frequency</td>
<td>10.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rebuilding trust</td>
<td>20.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External reputation</td>
<td>10.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal morale and alignment</td>
<td>10.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value</td>
<td>50.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>11.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Underlying replacement cost profit</td>
<td>11.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash costs</td>
<td>11.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georing</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Divestments</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upstream unplanned deferrals</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upstream major project delivery</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downstream net income per barrel</td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall outcome</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Figure 4. Management Remuneration

In 2009 a deferred bonus was introduced, to further align long term performance with executive remuneration. This means that one third of the yearly performance bonus is converted to shares and then matched, where after they are deferred for three years and then vested based on performance again.

The following figure shows executive remuneration. For the group chief executive by far most of the remuneration is derived from long term incentives. From 2009 onwards one third of the bonus is deferred.

4.1.2 Executive Limitations. What is BP’s practical application of the Executive Limitations policies?

What are the Executive Limitations policies of BP? How many layers does it have?
What is the importance ascribed to these policies?

In BP’s Board Governance Principles document the Executive Limitations are placed under ‘the Board’s relationship with Executive Management’. The Executive Limitations consists of multiple- two- with four categories in the first layer, of which two have a second layer with each three categories. The first layer is Limits on Executive action, which is subdivided by the next layer in three categories General Limitations, Risk and Internal Control, and Financial Limitations. General Limitations has one more layer subdivided in three categories and the same holds true for Financial Limitations.

These are the Limits on Executive action: ‘All GCE action and decisions will be carried out in accordance with commonly accepted business practice and professional ethics and within the Executive Limitations set out below’ (p.10).

The General Limitations refer to the health, safety and environmental consequences; the employees and other parties doing work for BP; political consequences; BP’s business relationships; BP’s reputation. And also to material deviation from the Strategy or the annual plan; and preventing dishonest, illegal or coercive conduct.

Risk and Internal Control states that BP is not ‘to operate without a comprehensive system of control and internal audit to identify and manage the risks that are material to BP...’
The Financial Limitations concerns BP’s financial situation, its financial limits, its allocation of capital and resources, and its maintenance of assets.

The importance ascribed to these limitations is quite high as measures of the limitations partly make up executive remuneration and company performance. These are for example CO2 emissions, a measure on diversity, employee satisfaction, and up to 2008 a measure on contribution to communities. In 2000 BP started the first worldwide greenhouse gas emissions trading program.

How are the Executive Limitation polices evaluated? Are the Limitations ever crossed?
What happens when the limitations are crossed?

A recurring theme in BP’s annual report is the believe in long-term relationships, founded on trust and mutual advantage. BP makes it clear that this is vital to its success. They also say that the challenge in the hydrocarbon business is operating without damaging the natural environment. The policies are reviewed every year and tied to performance.
goals; BP couples the Executive Limitations to Ends.

BP operates in a high-risk business in which accidents, as in fatalities and injuries, but also environmental damage, is part of the order of the day. In that sense, BP crosses its Limitations continuously. In 1997 the policy was as follows: ‘BP’s health, safety and environment (HSE) goals are simply stated – no accidents, no harm to people and no damage to the environment’ (BP, p.18). In none of its years of operation has BP managed to deliver these goals. They have, however, made significant progress most years regarding less spills, less CO2 emissions and less fatalities and accidents. Notable exceptions are 2005, 2006, and 2010.

In 2005 there was an explosion and fire in the Texas City refinery in which 15 people lost their lives and many others were injured. ‘In total, there were 27 workforce fatalities in the course of BP operations during 2005...This was the worst year of BP’s safety record since 1999, when there were 30 workforce fatalities.’ (BP, 2005, p. 18). The annual report says that the scale and impact of this event was taken into account in determining the annual bonus.

In 2006 there was a major oil spill in Prudhoe Bay in Alaska. Because of findings of internal and external reports on operational and safety issues...bonus levels were reduced by 50% that year. The next year the CEO was replaced.

In 2010 the Deepwater Horizon exploded followed by the biggest oil leak in the history of the industry. The new CEO resigned and no bonus was awarded that year and no shares were vested.

4.1.3. Board Management Delegation. What is BP’s practical application of the Board Management Delegation policies? What are the Executive Limitations policies of BP? How many layers does it have? How is the CEO directed? Who does the CEO report to? What is s/he accountable for? Does the board direct other executive officers besides the CEO?

‘The relationship between the board and the GCE is critical to the board’s work’ (BP, 2000, p. 76). From 1997 and up Board Management Delegation was called ‘board-executive linkage’ which ‘sets out how the board delegates authority to the group chief executive and the extend of the authority’ (2003, p.12). In the BP Board and Governance Principles document board-executive linkage is renamed to simply ‘The Board’s relationship with Executive Management’ and consists of three parts, ‘Delegation to the GCE’, ‘The Executive Limitations’ and ‘Accountability and Monitoring’. Thus, BP shares the Executive Limitations under Board Management Delegation. The Executive Limitations have already been discussed above. ‘Delegation to the GCE’ has one layer in six categories; and states that ‘The Board is responsible for reviewing and, where appropriate, determining the Strategy and
the monitoring of risk and performance’ (BP, 2014, p. 9). The GCE proposes the strategy for achieving the Goal for Board consideration and ‘Annually the GCE will propose the Plan together with specific results to be achieved during the financial year in pursuit of the BP Goal’ (ibid).

Authority is delegated to the GCE ‘for the executive management of BP consistent with the BP Goal and the Executive limitations’ and the board will hold the ‘GCE accountable for the discharge of his authority’ and will ‘respect and support the GCE’s decisions and judgment with the proper exercise of such authority’ (BP, 2014, p. 9). Again, the interview confirms this.

Importantly, ‘Decisions or instructions of individual directors or Committees of the Board do not carry the authority of the Board, except in this instances where specific authorization is given by the Board.’ These include ‘as to the Chairman between meetings or to the Remuneration Committee’ (BP, 2014, p. 9).

In relation to Strategy and Plan these policies represent a distinctive difference in tone from earlier ones (1997 and up), in which it was the board that set the standards and the GCE had to comply, instead of the GCE proposing Strategy and Plan and the board reviewing it.

‘Accountability and Monitoring’ consist of two layers. It specifies that ‘The Board will carry out its many monitoring responsibilities through whatever means it considers appropriate’ and that ‘the GCE will report to the Board at each meeting and advise the Board (...) in a timely manner of all material matters currently or prospectively affecting BP and its performance...’ What follows next is the second layer divided up in no less than thirteen categories covering strategic and political developments, identification of risk, reputation, skills and capabilities of the business, shareholder interests, etc.

*How is the CEO monitored? Is the CEO monitored and judged on issues different from or next to Ends and Limitations policies? On what principles is CEO compensation based?*

‘Progress towards the expected outcome is set out in a monthly report that covers actual results and a forecast of results for the current year’ (BP, 2001, p. 29). The CEO is not judged or monitored on other issues than Ends and Limitation. CEO compensation is based on a small regular salary and predominantly on performance. Also see 4.1.2. and 4.1.2.
Figure 5. GCE’s management framework

delegation
Source: BP, 2004, p. 110

4.1.4 The Governance Process. What is BP’s practical application of the Governance Process policies?

*What are the board’s Governance Process policies? How many layers does it have? Are all issues dealt with through policy? How is made sure that board meetings are efficient and effective? Has a CGO been appointed?*

In 1997 this was called Board Process Policy. In the Board Governance Principles document these are called ‘The Board and its Processes’ Three layers. The first layer has seven categories, the layer under that thirty-eight categories and the last layer three.. The seven main categories are Shareholders, Board Meetings, Independent Advice, Board Composition and Compensation, Chairman and Deputy Chairman, Board Committees, and The Company Secretary.

The responsibility of the board is to exemplify through the ‘Board Principles... its expectations for the conduct of the BP business and its employees’ (BP, 2014, p.3), therefor all issues should be dealt with through policy.

The purpose of the board as owner-representatives is made clear in the first category: ‘The Board is committed to promoting the success of BP. It represents the interests of all shareholders and seeks to act fairly between them. The Board will engage in an appropriate dialogue with shareholders and seek to obtain the view of the shareholders as a whole’ (BP, 2014, p.4).

No Chief Governance officer has been appointed. In fact, it is the chairman who has the responsibility on behalf of the board between meetings for ensuring the integrity and
effectiveness of the board/executive relationship (BP, 1997, p. 77) - not that of board meetings! What the chairman’s job does entail is the facilitation for the meetings, including the systems that are to ‘provide directors with accurate, timely and clear information to enable the Board to consider properly all matter before it.’ The Chairman is also ‘responsible for ensuring the integrity and effectiveness of the Board Principles’ (BP, 2014, p. 7).

The Chairman has extensive powers. Next to being the spokesperson for matters relating to the Board Principles, he is also ‘empowered to make any decision, establish any policy, take any action or enter into any obligation which is consistent with the Board Principles and, in so doing, may interpret the board Principles in any reasonable manner’ (BP, 2014, p. 7).

Finally, it is the Company Secretary’s role to advise the Board and the Committees on all governance matters’ and to ensure ‘that Board procedures are followed’ (BP, 2014, p. 8).

It has remained the policy since 1997 that over half of the directors are non-executives. In 1997 there were fifteen directors, of which nine non-executives. This composition was roughly maintained until 2011 when the number of executives was lowered to three. In 2012 and 2013 this number was four.

**What is the board’s stance towards its job? What about the individual members? How is information about owners’ wants and needs gathered? How important is this information to the board? How does it find its way into policies?**

Under ‘Board Composition and Compensation’ it is stated that ‘Membership of the Board represents a significant time commitment and Non-Executive directors must be prepared to give sufficient time for the discharge of their BP responsibilities’ (BP, 2014, p. 6). In this light ‘All appointments of Executive directors to other boards shall be subject to the approval of the Chairman and reported to the board’ (BP, 2014, p. 6). If other directorships held by Non-Executives are inconsistent with the commitments of BP then the Nomination Committee will make a recommendation to the Board.

The number of board meetings in 2010, the year of the Deepwater Horizon oil spill, twenty-five, and its high director attendance (76% as lowest), can be used as a proxy for board member commitment. The interview confirmed that board member commitment was very high.

‘BP’s board of directors is responsible for understanding the requirements of the shareholders’ (BP, 1997, p. 62). ‘The policies stress the importance of the relationship between the board and the shareholders. The board is required to be proactive in obtaining
an understanding of shareholder preference and to evaluate systematically the economic, political, social and other matters which may influence or affect the interests of its shareholders’ (BP, 1998, p. 75). In 2000 it was duly noted after the mergers with ARCO, Vastar and Burmah Castrol that the globalization of BP’s shareholders has increased bringing the challenge to account to ‘the totality of our shareholders, wherever they may live’ (BP, 2000, p. 6).

The 2014 Board and Governance Principles state the following under ‘The Board and its processes’, BP ‘represents the interests of all shareholders and seeks to act fairly between them. The Board will engage in an appropriate dialogue with shareholders and seek to obtain the view of all the shareholders as a whole (p.4).’ The interview confirms this.

Shareholder opinion is consulted at AGMs, at presentations made to the investment community, and meetings with institutional investors and private individuals, as well as by way of email rounds. In 2001 BP pioneered the use of electronic communications to facilitate the exercise of shareholder voting rights.

4.1.5 Committees. What is BP’s practical application of the use of committees policies?

What are the board’s committees policies? How many layers does it have? Which committees are made us of? What kind of work do they do? What is their relationship with the board? Do they make recommendations?

‘The policy recognizes that the board’s capacity, as a group, is limited. It therefore reserves to itself the making of broad policy decisions, delegating the more detailed considerations involved in meeting its stated requirements either to its committees and officers in the case of its own processes...’ (BP, 1998, p. 75).

The committees policies consists of one layer in four categories. The Board Governance Principles document states that the committees assist the Board in carrying out its responsibilities and that ‘any Committee will be subject to the Board Principles and will speak or act for the Board...’ (BP, 2014, p. 8). According to the interview committees, indeed, are used to reduce workload on the main board and to go into depth of certain topics. The committees also make recommendations to the board. Decisions are then made by the board as a whole.

BP makes use of a number of committees. These are the Chairman’s committee, which includes all non-executives, and has as task organisation and succession planning and performance assessment; the audit committee, that monitors all reporting, accounting, control and financial aspects; the Ethics and Environment Assurance Committee (from 2005 Safety was added), that monitors all other non-financial aspects of the company; the
remuneration committee, that makes performance contracts and targets and the structure of the rewards for the GCE and the executive directors; there is also the nomination committee. In 2010 the Gulf of Mexico committee was set up to deal with the Deepwater Horizon accident and subsequent spill, and its aftermath, and to free the main board.

How did BP plc apply the Policy Governance model from 1997-2013?

The practices unmistakably bear resemblance to Carver’s Policy Governance model. Most notably the use of nested policies and the four main parts Ends, Executive Limitations, Board-Management Delegation and the Governance Process, but not the use of committees. BP’s use of the model did not materially change over the 17 years.

BP has a very clear End, ‘to maximize long-term shareholder value’, but the End misses the relative worth component. In 1997 and 8 the worth component was unambiguously stated, paying out ‘50% of estimated average earnings through the business cycle (BP, 1998, p 3.) It is likely that the relative worth component is taken out following the Deepwater Horizon accident, after which BP could no longer live up to the relative worth component. Next to one final goal, BP’s yearly strategy is to be executed by the CEO. CEO compensation is based for the greater part on long term incentives in the form of performance shares that are awarded on the basis of shareholder return against the market and from 1999 onwards earnings per share and return on average capital employed.

Executive Limitations should be a clear demarcation of what is not ‘OK’. However, BP operates in an inherently risky environment. The Executive Limitations are altered to the exigencies of its industry and have therefore some build-in leeway on the Executive Limitations. Still, the Executive Limitations form an important part in determining the CEO’s remunerations And CEO resignation.

The CEO is directed by the board as a whole and only judged on Ends and Limitations. They both play an important role in executive remuneration. A small part of the remuneration comes from a yearly salary, by far the greater majority of compensation is dependent on making the Ends and avoiding the Limitations. In BP’s Board Process Policy it is laid out that the chairman has extensive power. He is allowed to make any decision or any action as long as this is in line with board policy. This power could potentially intervene in the strict role division between board and CEO and muddle the accountability of the CEO. This is a major difference with Policy Governance’s clear demarcation of accountability between the board and CEO. It is also a potential threat to board holism. However, it can also be seen as a failsafe, as it grants the possibility to intervene immediately when necessary. This clause could very well be introduced in 2010.

Another big difference is that regarding committees. BP uses them as an extension
of the board to reduce work-load. They have the authority to make board decisions for the entire board in their field of responsibility. These should be in line with the board as the decisions should follow the board’s own policies, but could potentially be a danger to board holism.

An important limitation of the findings is that they are based on a paper/archive study and one interview. Certainly the annual reports and BP’s Board Governance Principles document have a legitimization function (Meyer and Rowan, 1977) and could be merely lip service. However, the interview did lend much credibility to the paper/archive study and a strong case is built. Still, in order to further prove the findings and base them on direct observation, the study would have benefited from observation of one or multiple board meetings or more interviews with a (non-)executive directors. This would have further validated the findings.

4.2 Quantitative analysis

Does the practical application of the Policy Governance model by BP plc lead to superior comparative performance when compared to its direct competitors?

The qualitative study above is augmented with a quantitative study into performance measures of BP in comparison to its direct competitors, the other Big Oil companies. These are Shell, Total, Chevron, and Exxon. Since this is the entire population no statistical regression is necessary; after all, it is a technique used to make claims about a population while sampling a part of the particular population. The measures are accounting measures of performance, as measured by return on equity, return on assets, and net profit margin. The formula net profit divided by shareholder’s equity is used to determine return on equity (ROE). The formula net profit divided by assets is used to determine return on assets (ROA). The formula net profit divided by sales is used to determine net profit margin (NPM).

With the use of these ratios the performance of a firm can be assed. ROE, ROA and NPM are the standard measures to do so and are the traditional approach to decomposing profitability (Palepu et al, 2005). These measures feature dominantly in performance research and are therefore good candidates for adoption to foster comparability in this field.

Return on equity is ‘The starting point for a systematic analysis of a firm’s performance. ROE is a comprehensive indicator of a firm’s performance because it provides an indication of how well managers are employing the funds invested by the firm’s shareholders to generate returns’ (Palepu et al., 2005, p. 199).
‘Return on Assets tells us how much profit a company is able to generate to each Euro of assets invested’ (Palepu et al., 2005, p. 200).

Net profit margin is ‘The ratio of net profit to sales is called net profit margin or return on sales (ROS). The profit margin ration indicates how much the company is able to keep as profits for each euro of sales its makes’ (Palepu et al., 2005, p. 201).

Although BP adopted the Policy Governance model in 1997, the comparison of comparative performance starts from 2002 because of the hurdle of finding older annual reports on-line, except for those of BP. Searches for ‘older’ annual reports in either the Google or Yahoo search engine delivers unsatisfactory results. The filings search engine EDGAR of the SEC has annual reports of Shell until 2005.

Another important hurdle for research is the different accounting practices used by the different companies. Shell, Chevron and Exxon present their information in US GAAP, Total does so in French GAAP and BP does so in UK GAAP. These need to be harmonized.

In the annual account of 2002, Total offers balance sheets that concur fully with US GAAP. In the annual accounts of Total of 2003 and 2004 a table is provided that offers changes to the appropriate entries to make the financial statements concur with US accounting standards. A short explanation of the differences is also given. The major difference being ‘the treatment of Elf Aquitaine and PetroFina combinations, which are recorded as a pooling of interests in the French GAAP financial statements and as acquisitions in the US GAAP financial statements...’(Total, 2004, p. 202). This treatment more than doubles Total’s shareholders’ equity.

BP uses UK GAAP and offers in her annual reports a table with adjusted profit and shareholders’ equity for the year but this is not enough to calculate the performance measurements. In the annual report of 2006 BP does provides a table with the necessary entries to do so. These are revenues, profit for the year attributable to BP shareholders, total assets and BP’s shareholders’ equity. These entries are given from 2002-2006. Therefore, the analyses of the performance measurements for accountancy principles under US GAAP is for the time period form 2002-2006.

For the analyses above entries are used as the basis for comparison. The entries profit for the year attributable to X shareholders, total assets and X shareholders’ equity were taken over directly from the other companies’ statements. The entry revenue required some adjustments. For Shell, ‘net proceeds’ is used. For Exxon, ‘total revenues and other income’ is deducted by ‘excise taxes’ and ‘other taxes and duties’, which is net proceeds. For Total and Chevron, their ‘sales’ entries are deducted by a weighted average for 2003 and 2004 of the difference in percentage between ‘proceeds’ and ‘net proceeds’ for Shell; and ‘total revenues and other income’ deducted by ‘excise taxes’ and ‘other taxes
and duties’ for Exxon; to arrive at deduction of 24%. In this way ‘sales’ are harmonized to arrive at a comparable outcome for NPM.

From 2005 onwards Shell, BP, and Total are obliged to report under IFRS. This means that for Total three years of US GAAP reporting are available for the performance measurement analyses (from 2002-2004), as from then onwards Total ceased to report under US GAAP. Shell provides data under US GAAP until 2006. However, for Shell data is available from 2003. This means that for Shell four years of US GAAP are available for the performance measurement analyses (2003-2004). For Exxon and Chevron data is available from 2000-2006. IFRS data for Shell, BP and Total is available from 2004-2009. In 2010 the *Deepwater Horizon* accident happened which renders BP incomparable for that year and the following for the huge financial and reputational impact this had on BP. Therefore the analysis stops at 2009.

Two performance measurement analyses have been conducted. One under US GAAP from 2002-2006 regarding the companies Shell, BP, Total, Chevron and Exxon; and one under IFRS, from 2004-2006 regarding the companies Shell, BP, and total.

The results are presented in graphs at the end of this chapter. In appendix 2 tables are given for the measurements. For each measurement a graph is presented with the values per company per year and a column chart to show the average value per company. This is done separately for US GAAP and IFRS.

Regarding NPM under US GAAP BP has an average value of 7.43%. This is just above Shell’s 7.38%, and makes BP fourth in the group of five, but just barely. The highest value is that of Exxon, which is 11.05%. For NPM under IFRS BP has an average of 7.42%, which is higher than Shell’s 7.09%, but lower than Total’s 8.91%, making BP second out of the three.

Regarding ROE under US GAAP BP has an average of 19.21%. This is well above Total’s low 9.72%, but under the ratios of BP’s other competitors. Again, BP is fourth in the group of five. For ROE under IFRS BP has an average of 22.79%, which is higher than Shell’s 20.59%, but lower than Total’s 26.26%. BP places second out of three.

Regarding ROA under US GAAP BP has an average of 7.8%. This is well above Total’s low 5.46%, but under the ratios of BP’s other competitors. Again, BP is fourth in the group of five. For ROA under IFRS BP has an average of 9.13%. This is below Shell’s 9.65% and below Total’s 10.4%. Whereas under IFRS in the other two performance measurements BP was the median, it is now the last.
Does the practical application of the Policy Governance model by BP plc lead to superior comparative performance when compared to its direct competitors?

According to the margin of net profit and the ratios ROE and ROA the use of Carver’s Policy Governance model does not give BP superior performance vis-à-vis its direct competitors. Of the four competitors under the measures analysed from 2002-2006 under US GAAP BP performs below average. Of the two competitors analysed from 2004-2009 under IFRS BP performs average to below average.

The limitations on the findings of this study are twofold. Most importantly, the findings can only show correlation, not causation. Although the model is to improve performance, the comparatively poor results of BP could be due to a factor lying outside of governance. On the other hand, it is possible that BP’s result would be worse, with an orthodox model of governance.

Another limitation of the study is that although the annual reports were harmonised, it did not completely recast the financial statement of the companies in question to correct accounting distortions, be they earnings management or use of discretionary flexibility of the application of accounting rules. A scholar better versed in accounting analysis, individual countries’ GAAP and IFRS might attempt to reproduce the quantitative research and adjust for accounting distortions; and compare IFRS with US GAAP. The former would mean there would be more precise data, the latter would mean that more data points are available. Both mean improving the reliability of the research findings.

An advantage of not controlling for accounting distortions is that there is always a measure of personal judgment involved in the controlling that makes the resulting data harder to reproduce for subsequent studies.

This chapter explained that the qualitative analysis took place by comparing and contrasting Carver’s theoretical model of Policy Governance with that of BP’s practical application of the model. It did so by analysing the annual reports of BP from 1997 to 2013, with the use of BP’s Board Governance principles document, and a background interview with a non-executive. The quality of the data is quite high; a relatively rich account is given of BP’s use of Policy Governance. In two important ways BP’s use of the model deviates from theory. The chairman has been given extensive powers, being given the authority to make any decision. This could muddle the clear separation of roles and responsibilities of chairman and CEO. Committees are given the responsibility and authority to make board decisions and recommendations. This is a danger to board unity. A limitation of the study is that it has not benefitted from direct observation of board behaviour.

This second part of this chapter consists of a quantitative analysis that compared the
key performance indicators ROE, ROA and NPM of the five oil majors and researched whether the use of Policy Governance by BP led to superior comparative performance. Making the accounting numbers of the annual reports on which these performance indicators’ calculations are based comparable is a laborious task but improves the quality of the performance measures. In the case of BP, the practical application of the Policy Governance model does not lead to superior returns. BP scores below average to average on these performance measures in comparison to its peer group. Limitations of this study are that possible accounting distortions were not corrected, and that the analysis can only show correlation, not causation.
Results return on equity

**Figure 6.** ROE in percentages per company per year; and average ROE per company – US GAAP

**Figure 7.** ROE in percentages per company per year; and average ROE per company per year – IFRS
Results return on assets

**Figure 8.** ROA in percentages per company per year; and average ROA per company – US GAAP

![Graph showing ROA for Shell, BP, Total, Chevron, Exxon, and their averages from 2001 to 2009.]

**Figure 9.** ROA in percentages per company per year; and average ROA per company – IFRS

![Graph showing ROA for Shell, BP, Total, and their averages from 2003 to 2009.]
Results for net profit margin

**Figure 10.** NPM in percentages per company per year; and average NPM per company - US GAAP. (Shell’s marker to indicate average NMP is underneath BP’s. They virtually have the same values.)

**Figure 11.** NPM in percentages per company per year; and average NPM per company – IFRS
5. Conclusion

This thesis has conducted two researches into the Policy Governance model by Carver. The first one is a qualitative study: The first aim of this study is to conduct an explorative single-case study into the practical application of the Policy Governance model by British Petroleum (BP) plc over a period of 17 years, 1997-2013. Thus, how did PB plc apply the Policy Governance model from 1997-2013?

The practices unmistakably bear resemblance to Carver’s Policy Governance model. Most notably the use of nested policies and the four main parts Ends, Executive Limitations, Board-Management Delegation and the Governance Process. BP’s use of the model did not materially change over the 17 years.

BP has a very clear End, ‘to maximize long-term shareholder value’, but the end misses the relative worth component. In 1997 and 8 the worth component was unambiguously stated, paying out ‘50% of estimated average earnings through the business cycle (BP, 1998, p 3.) It is likely that the relative worth component is taken out following the Deepwater Horizon accident, after which BP could no longer live up to the relative worth component. Next to one final goal, BP’s yearly strategy is to be executed by the CEO. CEO compensation is based for the greater part on long term incentives in the form of performance shares that are awarded on the basis of shareholder return against the market, and from 1999 onwards also on earnings per share and return on average capital employed.

Executive Limitations should be a clear demarcation of what is not ‘OK’. However, BP operates in an inherently risky environment. The Executive Limitations are altered to the exigencies of its industry and have therefore some build-in leeway on the Executive Limitations. The CEO is directed by the board as a whole and only judged on Ends and Limitations. They both play an important role in executive remuneration. A small part of the remuneration comes from a yearly salary, by far the greater majority of compensation is dependent on making the Ends and avoiding the Limitations.

In BP’s Board Process Policy it is laid out that the chairman has extensive powers. He is allowed to make any decision or any action as long as this is in line with board policy. This power could potentially intervene in the strict role division between board and CEO and muddle the accountability of the CEO. This is a major difference with Policy Governance’s clear demarcation of accountability between the board and CEO. Another big difference is that regarding committees. BP uses them as an extension of the board to reduce work-load. They have the authority to make board decisions for the entire board in their field of responsibility, or give recommendations. The decisions and recommendations should be in
line with the board as these should follow the board’s own policies, but could potentially be a danger to board holism.

The second study, a quantitative one, concerned itself with this question: Does the application of the Policy Governance model by BP plc lead to superior comparative performance when compared to its direct competitors?

According to the margin of net profit and the ratios ROE and ROA the use of Carver’s Policy Governance model does not give BP superior performance vis-à-vis its direct competitors. Amongst its four competitors, Shell, Total, Chevron and Exxon, the measures analysed from 2002-2006 under US GAAP show that BP performs below average. Amongst BP’s two competitors, Shell and Total, the measures analysed from 2004-2009 under IFRS show that BP performs average to below average.

5.1 Discussion

To connect the study to the theory with which the literature analysis set out: In the problem of separation of ownership and control and the agency problem, the agent is supervised by the principal’s proxy, the non-executives. This particular study has shown that the governance model called Policy Governance is not able to further the interests of the shareholders by producing superior comparative returns. In respect to stewardship and stakeholder theories, to the extent that these further the interests of the company as measured by the same measures, the conclusion is the same. It does, however, remain the question whether or not in the eyes of the shareholders BP is able to further their interest. In this respect, BP might be very successful as the qualitative study shows due care and diligence is taken to do so.

Regarding the qualitative study, Ghuari (2004) writes that most case studies are done through a review of existing historical material and records and interviews. This study follows the beaten path as it has come at its findings through a review of just that. The construct validity of the qualitative study is high. Through the use of the annual reports, which are extensive about BP’s corporate governance, and BP’s Board Policies documents, a relatively rich picture of BP’s use of Policy Governance can be created, which the background interview confirmed. The reliability of the qualitative study is also high because next to the annual reports and BP’s Board Policies document a background interview with a non-executive was held which confirmed the finding of the paper study. The reliability could have benefited from more interviews or one or multiple board meeting observations.
The construct validity of the quantitative study is also high. The model is to lead to better performance and thus the most important performance measurements were compared. It has used the traditional approach to decomposing profitability to determine performance, using the performance measures ROE, ROA and NPM to do so. Performance measures like ROE, ROA and NPM feature prominently in research that seeks to establish a link between corporate governance and performance (MacAvoy et al, 1983; Hermalin and Weisbach, 1991; Mehran 1995; Klein 1998; Bhagat and Black, 2000; Bauer, Guenster and Otten, 2003).

The reliability of these findings, however, can be contested. Firstly because the annual statements from which the values were taken to calculate the performance measures were not controlled for accounting distortions. A study that would do so might get different results.

Secondly because BP applies Policy Governance different from how it is intended on two points. There is no doubt that BP practices Policy Governance but the possible interference of the chairman into CEO matters could be value destructive. Also the use of committees is different from what the model prescribes. These two differences might have an effect on performance. Also because Carver recommends using the model in its entirety (Carver, 2006). On the other hand, the power of the chairman can function as a failsafe, and the use of committees probably stems from the reality of time constraint placed on the (non-)executives of one of the biggest multi-nationals in the world (in terms of revenue).

A question that can be asked in connection to this is does BP get the maximum out of the model? The model is universal and therefore malleable, not only to each specific company, but also in its specific use. It is possible that BP does not use the model to its full potential. An indicator might be that BP seems to use few layers of policy in each category.

Inversely, BP performance could theoretically be worse with an orthodox model of governance.

In terms of external validity of the study, because of the universal aspect of the model the findings are relevant to different times and places (other companies). But as pointed out above, because of the universal aspect the model is malleable and in each specific use will be different, which subverts external validity. This paradox makes the study both relevant as well as irrelevant to other companies interested in adopting the Policy Governance model. What the study certainly does do is providing a rich description of Policy Governance in practice.
Another limitation is the usual caveat, that a study like this can only show correlation, not causation. Endogeneity might play a role, meaning that the results might be driven by another factor than governance within the company. The results might also be driven by a factor exogenous of the company altogether. In both cases, the correlation between the Policy Governance model and performance is spurious.

In important ways do the outcomes of the study contribute to existing literature/knowledge about corporate governance and more specifically Policy Governance. First, the qualitative study is the first and only one of its kind: a single-case study, and more over one into an equity (for profit) organisation – one of the world’s largest. The study provides an insight into the application of the model over a period of seventeen years in a major publicly traded organisation.

This study fill a void as Policy Governance is under-researched in the first place, as there is a lack of empirical evidence on and studies into the use of the model in practice. The study of Policy Governance can also be overlooked. The few studies that have been done are all relatively old, the latest one having been published in 2003 (Nobbie and Brudney).

In another important way does this study contribute to existing literature and knowledge about corporate governance and more specifically Policy Governance. It is the first study to investigate whether the application of the model leads to superior comparative performance amongst a group of direct competitors. This particular study has found it does not.

It is difficult to analyse the result of the qualitative study in the light of the existing literature due to its different nature. Previous studies have been questionnaire based except for Mel Gill’s (2001) Governance Do’s & Don’t which conducted mini case studies into twenty Canadian non-profits. The other studies focussed on intentional efforts of boards to improve their performance (Brudney and Murray, 1998), judgements of board effectiveness by board member and CEOs (Gordon, 2000), the view of trainer consultants on Policy Governance and the implementation, board performance and organisational effectiveness of the Policy Governance model in non-profit board of directors (Nobbie and Brudney 2003). These studies on performance focussed on soft performance measurements, not on hard performance measurements such as ROE, ROA, and NPM. An important difference between these studies and this thesis is that they have been unanimously positive in their research findings about Policy Governance whereas this thesis has results that are not positive towards the use of Policy Governance- it does not lead to superior comparative performance, rather to sub-average.
Regarding the mixed results the literature on corporate governance in general and performance measurements in particular has brought forward, not too strong inferences should be made regarding Policy Governance and performance. It is well possible that following research yields different results.

5.2 Recommendations

Practical implications following from the study are that those, be it the scholar, the consultant, the non-executive director, interested in Policy Governance and its practical implementation, use, or application, now have a relatively rich case study to satisfy their interest and further their thought process.

Another is that the outcome of the performance measurement might give reason to those interested in implementing it in publicly traded companies to keep the following caveat in mind: the model does not guarantee superior performance although it might service it.

As hinted at in the discussion, this study can be followed up by a study assessing shareholders opinion of the extent to which BP’s governance furthers their wishes and translates their demands into company performance. A second follow-up study can be undertaken into share price and dividends paid out, to assess whether Policy Governance leads to superior comparative performance in this respect.

Further research first of all should simply be more research. This study now stands solitary in the plane of Policy Governance research into single-case studies, publicly traded companies, and also performance measurement. Very few academics in the field of corporate governance concern themselves with research into Policy Governance. This thesis is a case in point. Only ten years after Jeremy Booker, former vice-resident of corporate governance at BP, invited scholars to study BP as a practical case is the call answered.

Doing research into Policy Governance is difficult because there are few publicly traded companies using it. Moreover, it is not made explicit if they are using it. Even BP does not mention a single time in all its annual accounts from 1997-2013 Policy Governance or Carver. For truly research into Policy Governance to be able to kick off more companies should adopt it and also make it known.

Jeremy Booker, identified three impediments to the broader adoption of Policy Governance principles in the business world (Booker, 2004). Firstly, personalities; non-executive directors are most often either serving or retired CEO’s and executives and are therefore not primed towards their role as governors; they fall to the temptation to manage.
Secondly, culture; the current governance culture is deeply ingrained and non-executives would feel out of their comfort zone because Policy Governance is so different. Thirdly, regulation; regulators in their response to corporate failures changed elements of board process rather than considering whether boards adhered to the fundamentals of governance.

There is a role here for the International Policy Governance Association (IPGA) too. They could keep better relationships, call it account management, with the companies that have adopted it or have shown interest in adopting the model. Currently they only have very incomplete information on companies using the model. Clearly, a long and complete list of companies using the Policy Governance would make it much easier for scholars to pick and approach companies for empirical research and determine whether or not Policy Governance boards can make a difference or create value.
## Appendix 1 Qualitative data – A concise overview of BP’s practical application of the Policy Governance model 1997-2014, per question.

### Ends

<table>
<thead>
<tr>
<th>What is BP’s practical application of the Ends policies?</th>
</tr>
</thead>
</table>
| **What are the Ends policies?** | What are the Ends Policies?  
BP calls this ‘The BP Goal’.  
Maximizing ‘long-term shareholder value through the allocation of its resources to activities in the oil, natural gas petrochemicals and energy business’ (BP, 2014, p.2)  
This Ends policy misses a relative worth component. |

<table>
<thead>
<tr>
<th>How many layers does it have?</th>
<th>One layer, with one category.</th>
</tr>
</thead>
</table>

| How is the relative worth component reached? | In 1997 and 1998 a clear relative worth component: ‘the pay-out policy is 50% of estimated earnings through the business cycle’ (BP, 1998, p.3).  
The relative worth component is dropped from the 2014 Board Policies document. |
|-----------------------------------------------|-----------------------------------------------|

<table>
<thead>
<tr>
<th>What is the importance ascribed to Ends policies</th>
<th>The importance is high, the successive financial statements are permeated with the purpose of the company: generating shareholder value.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>How are the Ends evaluated?</th>
<th>Ends are evaluated on the basis of monthly reports that cover actual results of annual and medium-term plans set, and a forecast of results for the current year.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What happens when these are not met?</th>
<th>CEO compensation consists for the major part of performance shares. When Ends are not no performance shares are granted.</th>
</tr>
</thead>
</table>
## Executive Limitations

<table>
<thead>
<tr>
<th>What is BP’s practical application of the Executive Limitations policies?</th>
<th>In BP’s Board Governance Principles document the Executive Limitations are placed under ‘the Board’s relationship with Executive Management’. They consist of Limits on Executive action, General Limitations, Risk and Internal Control, and Financial Limitations. The limitations state: ‘All GCE action and decisions will be carried out in accordance with commonly accepted business practice and professional ethics and within the Executive Limitations set out below’ (BP, 2014, p.10).</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many layers does it have?</td>
<td>Two layers. The first layer has four categories of which two have an extra layer with three more categories.</td>
</tr>
<tr>
<td>What is the importance ascribed to Executive Limitations policies?</td>
<td>This is quite high as measures of the limitations partly make up executive remuneration.</td>
</tr>
<tr>
<td>How are the Executive Limitation policies evaluated?</td>
<td>The importance is high, the successive financial statements are permeated with the purpose of the company: generating shareholder value.</td>
</tr>
<tr>
<td>How are the Executive Limitation policies evaluated?</td>
<td>This is done for example by measuring CO2 emission, a measure on diversity, employee satisfaction. From 1997 to 2008 this included a measure on contribution to communities.</td>
</tr>
<tr>
<td>Are the Limitations ever crossed?</td>
<td>CEO compensation consists for the major part of performance shares. When Ends are not no performance shares are granted.</td>
</tr>
<tr>
<td>What happens when the limitations are crossed?</td>
<td>Executive Limitations are connected to performance measures and so to pay. When seriously trespassed, no bonuses are or less is awarded or the CEO resigns.</td>
</tr>
</tbody>
</table>
## Board Management Delegation

<table>
<thead>
<tr>
<th>What is BP’s practical application of the Board Management Delegation policies?</th>
<th>The Management Delegation policies is renamed ‘The Boards relation with Executive Management’ and it contains ‘Delegation to the GCE’, and ‘Accountability and Monitoring’. Delegation to the GCE’ has one layer and six categories. It states: ‘The Board is responsible for reviewing and, where appropriate, determining the Strategy and the monitoring of risk and performance’. ‘Accountability and Monitoring’ consist of two layers. It specifies that ‘The Board will carry out its many monitoring responsibilities through whatever means it considers appropriate’ and that ‘the GCE will report to the Board at each meeting and advise the Board (...) in a timely manner of all material matters currently or prospectively affecting BP and its performance...’ In the next layer it specifies thirteen points when the GCE is to do so.</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many layers does it have?</td>
<td>Three layers. The first layer has two categories, the second layer eight categories of which one has one more thirteen categories.</td>
</tr>
<tr>
<td>How is the CEO directed?</td>
<td>BP calls this Delegation to the GCE. The CEO has to achieve the strategy either reviewed or set out by the board. In doing so the GCO has to stay within the Executive Limitations.</td>
</tr>
<tr>
<td>Who does the CEO report to?</td>
<td>The CEO reports to the board in monthly reports.</td>
</tr>
<tr>
<td>What is s/he accountable for?</td>
<td>The CEO is accountable for the discharge of his authority for the executive management.</td>
</tr>
<tr>
<td>How is the CEO monitored?</td>
<td>Through monthly reports that cover actual results.</td>
</tr>
<tr>
<td>Is the CEO monitored and judged on issues different from or next to Ends and Limitations policies?</td>
<td>Executive Limitations are connected to performance measures and so to pay. When seriously trespassed, no bonuses are or less is awarded or the CEO resigns.</td>
</tr>
</tbody>
</table>
**On what principles is CEO compensation based?**  
CEO compensation is based on Ends and Executive Limitations. Compensation takes the form of a small annual salary but mostly on performance based shares and to a minor extend on an annual bonus that are both dependent on making the Ends and avoiding the Limitations.

---

**Governance Process**

**What is BP’s practical application of the Governance Process policies?**

<table>
<thead>
<tr>
<th>What are the board’s Governance Process policies?</th>
<th>BP calls these ‘the Board and its Processes and are most extensive of all the policies. The first layer has seven categories which are Shareholders, Board Meetings, Independent Advice, Board Composition and Compensation, Chairman and Deputy Chairman, Board Committees, and The Company Secretary. Of these Board Composition and Compensation has six categories and one more layer; and Chairman and Deputy Chairman has five more categories. The rest have one to four categories. Board composition and Compensation has one more layer with three categories. The responsibility of the board is to exemplify through the ‘Board Principles… its expectations for the conduct of the BP business and its employees’ (BP, 2014, p.3), ththerefor all issues should be dealt with through policy. The purpose of the board as owner-representatives is made clear in the first category: ‘The Board is committed to promoting the success of BP. It represents the interests of all shareholders and seeks to act fairly between them. The Board will engage in an appropriate dialogue with shareholders and seek to obtain the view of the shareholders as a whole’ (BP, 2014, p.4).</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many layers does it have?</td>
<td>Three layers. The first layer has seven categories, the layer under that thirty-eight categories and the last layer three.</td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Are all issues dealt with through policy?</td>
<td>The governance principles states that ‘the responsibility of the board is to exemplify the ‘Board Principles’...its expectations for the conduct of the BP business and its employees’ (BP, 2014, p. 3). Therefore all issues should be dealt with through policy. However, the Chairman has extensive powers, including those to take any action or enter into any obligations. This can prove harmful to Board Management delegation as the CEO should be the sole responsible for executive matters.</td>
</tr>
<tr>
<td>How is made sure that board meetings are efficient and effective?</td>
<td>The Chairman has the task to facilitate the meetings as to ‘enable the board to consider properly all matters before it.’ The Chairman is also responsible for ensuring the integrity and effectiveness of the Board Principles (BP, 2014, p. 7). The company secretary has to ensure that board procedures are followed and thus to make sure board meetings are efficient and effective.</td>
</tr>
<tr>
<td>Has a CGO been appointed?</td>
<td>No, instead the Company Secretary has the duty to ensure that board procedures are followed.</td>
</tr>
<tr>
<td>What is the board’s stance towards its job?</td>
<td>In the board policy it states that ‘Membership of the board represents a significant time commitment and Non-Executive directors must be prepared to give sufficient time for the discharge of their BP responsibilities’ (BP, 2014, p. 6). The number of board meetings in 2010, twenty-five, and its high director attendance, the lowest being 75%, can be used as a proxy for board member commitment.</td>
</tr>
<tr>
<td>What about the individual members?</td>
<td>This is gathered through dialogue; at AGMs, at presentation made to the investor community, and meetings with institutional investors and private individuals.</td>
</tr>
<tr>
<td>How is information about owners’ wants and needs gathered?</td>
<td>This information seems to be of high importance as it is the director’s responsibility to understand ‘the requirements of shareholders’ (BP, 1997, p. 62). And the policies stress the importance of the relationship between the board and the shareholders.</td>
</tr>
<tr>
<td><strong>How important is this information to the board?</strong></td>
<td>This information seems to be of high importance as it is the director’s responsibility to understand ‘the requirements of shareholders’ (BP, 1997, p. 62). And the policies stress the importance of the relationship between the board and the shareholders.</td>
</tr>
<tr>
<td><strong>How does it find its way into policies?</strong></td>
<td>No data available.</td>
</tr>
</tbody>
</table>

### Committees policies

**What is BP’s practical application of the use of committees policies?**

| **What are the board’s committees policies?** | The ‘Board Committees policies’ are part of the Board Process policies as category six categories. The Board Governance Principles document states that the committees assist the Board in carrying out its responsibilities and that ‘any Committee will be subject to the Board Principles and will speak or act for the Board...’ (BP, 2014, p. 8). |
| **How many layers does it have?** | The policies consist of one layer and four categories. |
| **Which committees are made use of? What kind of work do they do?** | BP makes use of six committees: The Chairman’s committee, which includes all non-executives, and has as task organisation and succession planning and performance assessment; the audit committee, that monitors all reporting, accounting, control and financial aspects; the Ethics and Environment Assurance Committee, that monitors all other non-financial aspects of the company; the remuneration committee, that makes performance contracts and targets, and the structure of the rewards for the GCE and the executive directors; there is also the nomination committee. In 2010 the Gulf of Mexico committee was set up to deal with the Deepwater Horizon accident and subsequent spill, and its aftermath, and to free the main board. |
| **What is their relationship with the board?** | The committees work as little boards, as in orthodox governance. They have the authority and duty to make decisions for the board as long as they stay in line with policy. ‘The policy recognizes that the board’s capacity, as a group, is limited. It therefore reserves to itself the making of broad policy decisions, delegating the more detailed considerations involved in meeting its stated requirements either to its committees...’ (BP, 1998, p. 75). |
| **Do they make recommendations?** | Yes. |
Appendix 2 – Comparing and Contrasting, Similarities and Differences

A very brief overview is provided of the similarities and differences of BP’s governance practices from 1997 to 2013 vis-à-vis the Policy Governance model. To make this overview all the sub-questions are refitted into a binary form. Thus, ‘What are the Ends of BP?’ is refitted to ‘Does BP have Ends policies?’; ‘What is the importance ascribed to the Ends policies?’ is refitted to ‘Are the Ends policies important?’; ‘Who does the CEO report to?’ is refitted to ‘Does the CEO report to the board as a whole?’ etc.

When an answer deviates from what Carver’s model prescribes, the answer has an asterisk. The how of the deviation (or non-deviation) is explained in Chapter 4 of this thesis. Possible implications are given in Chapter 5 of this thesis.

Although the study by Nobbie and Brudney (2003) measures the level of Policy Governance implementation and assigns a percentage to this, this study does not do so because of the inherent and unavoidable reductionist character of measuring and expressing in numbers, let alone a single figure (i.e. a percentage) (Power, 2004). For a qualitative single-case study to do so would be counter-productive and destructive of value.

### Ends:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<tr>
<td>Yes</td>
<td>Yes, 1</td>
<td>Yes, No*</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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</table>

### Executive Limitations:

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes, 3</td>
<td>High</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes*</td>
<td>Yes</td>
</tr>
</tbody>
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### Board Management Delegation:

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<td>Yes, 1</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
### Board Management Delegation continued:

<table>
<thead>
<tr>
<th>CEO only one directed by board?</th>
<th>Compensation based only on Ends and Lim.?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Governance Process:

<table>
<thead>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes, 3</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No*</td>
<td>High</td>
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</tbody>
</table>

### Information on owners wants and needs gathered?

<table>
<thead>
<tr>
<th>Owners’ wants and needs transferred into policy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
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</tbody>
</table>

### Committees Policies

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>Yes</td>
<td>No</td>
<td>No*</td>
<td>Yes*</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 3 Quantitative data – Performance measurement data in table form

Results return on equity in table form

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell ROE</th>
<th>BP ROE</th>
<th>Total ROE</th>
<th>Chevron ROE</th>
<th>Exxon ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>12.17</td>
<td>9.07</td>
<td>3.58</td>
<td>15.36</td>
<td></td>
</tr>
<tr>
<td>US GAAP</td>
<td>2004</td>
<td>21.50</td>
<td>20.08</td>
<td>10.92</td>
<td>29.47</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>27.30</td>
<td>23.07</td>
<td>22.50</td>
<td>32.50</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>22.96</td>
<td>24.41</td>
<td>24.86</td>
<td>34.70</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average: 22.19 19.21 9.72 20.07 26.27

Table 1. Return on equity in percentages under US GAAP, per company, per year and average.

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell ROE</th>
<th>BP ROE</th>
<th>Total ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>20.29</td>
<td>21.83</td>
<td>33.52</td>
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<tr>
<td>2005</td>
<td>26.82</td>
<td>27.66</td>
<td>29.59</td>
</tr>
<tr>
<td>IFRS</td>
<td>2006</td>
<td>22.13</td>
<td>26.00</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>24.87</td>
<td>22.02</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>20.39</td>
<td>22.97</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>9.06</td>
<td>16.23</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average: 20.59 22.79 26.26

Table 2. Return on equity in percentages under IFRS, per company, per year and average.
Results on return on assets in table form

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell ROA</th>
<th>BP ROA</th>
<th>Total ROA</th>
<th>Chevron ROA</th>
<th>Exxon ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>4.94</td>
<td>5.02</td>
<td></td>
<td>1.46</td>
<td>7.51</td>
</tr>
<tr>
<td>2003</td>
<td>7.26</td>
<td>6.94</td>
<td>5.26</td>
<td>8.87</td>
<td>12.34</td>
</tr>
<tr>
<td>US GAAP</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2005</td>
<td>11.49</td>
<td>9.19</td>
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<td>11.20</td>
<td>17.34</td>
</tr>
<tr>
<td>2006</td>
<td>10.33</td>
<td>9.63</td>
<td></td>
<td>12.92</td>
<td>18.04</td>
</tr>
<tr>
<td>2007</td>
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</tr>
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<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average:</td>
<td>9.63</td>
<td>7.80</td>
<td>5.46</td>
<td>9.78</td>
<td>13.64</td>
</tr>
</tbody>
</table>

Table 3. Return on assets in percentages under US GAAP, per company, per year and average.

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell ROA</th>
<th>BP ROA</th>
<th>Total ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>9.89</td>
<td>8.77</td>
<td>12.53</td>
</tr>
<tr>
<td>2005</td>
<td>11.96</td>
<td>10.80</td>
<td>11.56</td>
</tr>
<tr>
<td>IFRS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>10.81</td>
<td>10.11</td>
<td>11.18</td>
</tr>
<tr>
<td>2007</td>
<td>11.63</td>
<td>8.83</td>
<td>11.61</td>
</tr>
<tr>
<td>2008</td>
<td>9.30</td>
<td>9.27</td>
<td>8.95</td>
</tr>
<tr>
<td>2009</td>
<td>4.28</td>
<td>7.03</td>
<td>6.61</td>
</tr>
<tr>
<td>Average:</td>
<td>9.65</td>
<td>9.13</td>
<td>10.41</td>
</tr>
</tbody>
</table>

Table 4. Return on assets in percentages under IFRS, per company, per year and average.
## Results on net profit margin in table form

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell NPM</th>
<th>BP NPM</th>
<th>Total NPM</th>
<th>Chevron NPM</th>
<th>Exxon NPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>5.55</td>
<td>8.04</td>
<td>1.51</td>
<td>7.70</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>6.20</td>
<td>7.45</td>
<td>7.67</td>
<td>7.81</td>
<td>11.61</td>
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<tr>
<td>US GAAP</td>
<td>6.90</td>
<td>8.41</td>
<td>7.74</td>
<td>11.29</td>
<td>11.02</td>
</tr>
<tr>
<td>2005</td>
<td>8.50</td>
<td>7.79</td>
<td></td>
<td>9.36</td>
<td>12.11</td>
</tr>
<tr>
<td>2006</td>
<td>7.90</td>
<td>7.94</td>
<td>10.73</td>
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<td>2007</td>
<td>2008</td>
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<tr>
<td>2009</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Average:</td>
<td>7.38</td>
<td>7.43</td>
<td>7.82</td>
<td>8.14</td>
<td>11.05</td>
</tr>
</tbody>
</table>

*Table 5. Net profit margin in percentages under US GAAP, per company, per year and average.*

<table>
<thead>
<tr>
<th>Year</th>
<th>Shell NPM</th>
<th>BP NPM</th>
<th>Total NPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>6.96</td>
<td>7.18</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>8.56</td>
<td>8.35</td>
<td>10.82</td>
</tr>
<tr>
<td>IFRS</td>
<td>7.98</td>
<td>8.76</td>
<td>10.01</td>
</tr>
<tr>
<td>2006</td>
<td>8.81</td>
<td>8.02</td>
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<td>2007</td>
<td>5.73</td>
<td>7.15</td>
<td>9.63</td>
</tr>
<tr>
<td>2008</td>
<td>4.50</td>
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<td>6.61</td>
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<tr>
<td>2009</td>
<td>6.74</td>
<td>7.53</td>
<td></td>
</tr>
<tr>
<td>2010</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

| Average: | 7.09 | 7.42 | 8.91 |

*Table 6. Net profit margin in percentages under IFRS, per company, per year and average.*
Appendix 4 – interview questions Mr. Burgmans

Dear Mr. Burgmans,

This list of questions aims to enlighten the corporate governance model as practised by BP. Through the perusal of BP’s annual accounts form 1997 onwards I have become very acquainted with how BP uses the Policy Governance model. Still, there are a number of questions that would greatly benefit the study I am undertaking, and are best answered by a non-executive of BP. Most preferably by you as longest sitting non-executive.

1. Would you like to add anything to the annual reports in terms of the BP Goal (Ends policies), Executive Limitations policies, Delegation to the CGE (Board Management Delegation policies), the Board and its Processes (the Governance Process policies), and the use of committees policies?

2. How does the model drive BP’s performance? What are its most important features?

3. Does BP use the model to its full capacity?

4. Did BP alter the use of the model in any material way over the course of its use (1997-2014)?

5. How can the model be improved?

6. What is your opinion on Policy Governance in comparison to other governance models?

7. What is BP’s advantage as a result of the use of Policy Governance in respect to other oil majors, BP’s direct competitors.

8. Should other big multi-nationals take up the Policy Governance model?

9. Taking into account the increasing importance of shareholders and the problems concerning governance, what is your general view on the future of corporate governance?
Bibliography


**Annual Reports BP plc.**


Annual Reports Chevron


Annual Reports Exxon Mobil Corporation


**Annual Reports Shell**


Annual Reports Total


