

Research Paper

Marks & Spencer and Next PLC: Evaluation of Corporate Governance Procedures

1. Introduction

This report engages in the comparison, contrasting and evaluation of the corporate governance policies and procedures of two companies from the same business sector listed on the London Stock Exchange. The corporations chosen for this purpose are Marks & Spencer and Next Plc. Both of them are primarily engaged in the business of fashion retailing. M&S does, however, have additional interests in the retailing of high-quality food products. Information for the paper has primarily been obtained from the latest annual reports of the two firms and relevant online sources.

2. Discussion and Analysis

2.1. Agency Theory/Stewardship Theory/Enlightened Stakeholder Theory

The agency theory is primarily used to understand the relationship between the principal and the agent, which in the corporate context refers to shareholders and the organisational senior management represented by the board of directors. The agent is expected to represent the best interests of the principal in return for agency fees. The interests of principals and agents could, however, diverge substantially and become a source of conflict; such conflict could not only result in the agent opting against the interests of the principal but also to considerable discord between the two. The agency theory is important in corporate governance as the same can be used to alter the conditions under which the agent operates in order to restore the interests of the principal.

Agency theory can be used to design incentives suitably in order to encourage correct behaviour and discourage wrong ones. Whilst the agency theory has been useful in understanding the relationships between principal and agent, it is essentially descriptive and does not provide in-depth knowledge of the principal-agent relationship. It has been criticised on account of its apparent superficiality and its lack of in-depth explanation. The agency theory can be considered to be relevant to both M&S and Next Plc because the directors and senior management of both organisations are remunerated and motivated handsomely to work in the interests of shareholders.

The stewardship theory of corporate governance is a normative alternative to agency theory. Stewards comprise the individuals who are responsible for major investors or shareholders. They should be diligent stakeholders in an enterprise and ensure the organisation accounts for the investments that have been made. ... informed that the broader concept of stewardship, which is intertwined but separate to the board, essentially focuses on ensuring that organisational management's focus on forward looking strategies that prohibit unethical actions, protect the environment, ensure social and community wellbeing and help in the creation of the future. The stewardship theory has been criticised as being somewhat inappropriate for practical application at the board level because it overlooks important directorial responsibilities like review of financial performance and ensuring regulatory compliance.

The enlightened stakeholder theory focuses on the impact of corporate activity on all identifiable corporate stakeholders. The theory specifically posits that the organisational directors should consider the interests of all stakeholder groups in their governance process and strive to meet their needs and requirements. They should aim to reduce conflicts between the interests of different stakeholder groups and ensure consideration of the interests of third parties that are dependent to some extent on organisational operations. The stakeholder theory has gained considerable acceptance in recent times and organisational managements are moving beyond the tenets of the shareholder theory to provide for the valid needs and expectations of different stakeholder groups.

The examination of the corporate governance approaches of both M&S and Next Plc reveal that the organisational management of both firms are focused on stakeholder satisfaction. M&S places considerable importance on meeting the needs of different stakeholder groups like shareholders, customers, colleagues, suppliers and other partners. The firm has clearly articulated on the importance of different stakeholders, their importance, their priorities and the organisation's engagement approach and governance consideration.

The annual report of Next Plc also emphasises that due attention is given to the views of shareholders, other providers of capital and different stakeholders. To elaborate, the board engages with the workforce through the workforce panel and attendance by a non-executive director at these panel meetings. It can thus be concluded that whilst the agency theory and the stewardship theory play roles in the determination of corporate governance practices, the stakeholder theory

plays the most important role in influencing corporate governance practices at both these organisations.

2.2. Comparison and Contrasting of Governance Structures

2.2.1. Role of the Board

The board of directors at M&S is responsible for organisational governance, which includes establishment of strategic organisational objectives, guaranteeing effective leadership, supervising organisational performance and reporting it to shareholders. The organisation's board has in recent past placed considerable emphasis on guiding organisational strategies towards the Covid-19 pandemic and ensuring organisational preparedness for Brexit.

The board of directors at Next Plc are similarly responsible for ensuring high levels of corporate governance and ensuring that the organisation is the customers' first choice of destination for clothing and home ware and provides extremely high levels of service. The board of directors is furthermore responsible for preparing the annual report and the financial statements. The organisational board has provided comprehensive guidance to the management on responding to Covid-19 imperatives including preserving the health and safety of employees, supporting furloughed employees and preservation of cash.

2.2.2. Structure of the Board

The board of M&S is headed by the Chairman and has two executive directors, namely the chief executive and the chief financial officer. There were six non-executive directors, three of whom retired during the year, whereas three were appointed in their place. The board furthermore has five committees in addition to the executive committee, namely the audit committee, the remuneration committee, the nomination committee, the ESG committee and the disclosure committee.

The board of Next Plc is headed by the Chairman and has four executive directors, namely the Chief executive, the group finance director, the group sales and marketing director and the group merchandise and operations director. It also has 5 independent non-executive directors; the board has three specific committees, namely the audit committee, the remuneration committee and the nomination committee.

2.2.3. Role of the Chairman

The Chairman at M&S is responsible for leading the board of directors, which in turn is responsible for the establishment of the company's purpose, values and strategy, the promotion of its culture, the oversight of its conduct and affairs and the promotion of organisational success.

The chairman of Next Plc is similarly responsible for guiding and leading the board of directors and focusing it on strategic issues, overseeing organisational business and establishment of high governance standards.

2.2.4. Role of the CEO

The role of the CEO at M & S, namely Steve Rowe is to provide overall leadership to the organisation. The CEO is responsible for the overall success of the business organisation and for the making of top level managerial decisions.

The CEO at Next Plc also has similar responsibilities and is responsible for leading the company's short and long-term strategy, the creation and implementation of the organisation's vision and mission, the evaluation of the work of other directors and executive leaders ensuring high levels of organisational CSR and ensuring monitoring and minimisation of risks.

2.3. Compliance

2.3.1. Risk Management, Internal Control and their Systematic Review and Monitoring

M&S has a simple and practical approach to risk management. The audit committee is accountable for overseeing the effectiveness of the risk management process including identification of principal and emerging risks. The organisation has an effective internal control system, which is carried out by the internal auditor, who ensures timely follow-up of control deficiencies and appropriate safeguarding of assets, activities and interests of the group.

With regard to Next Plc, the board has overall responsibility for risk management, the supporting system of internal controls and for reviewing their effectiveness. The group operates a policy of continuous identification and review of business risks; this includes the monitoring of key risks, identification of emerging risks and consideration of risk mitigation after considering risk appetite and the impact of how risks may affect the achievement of business objectives.

Both organisations undertake annual reviews of risk management and internal control systems, under the supervision of the board and the active involvement of internal auditors.

2.3.2. Financial and Business Disclosures

M&S has an elaborate process for the management and governance of risks. It identifies risks and discloses them at length in its annual report. Risks are identified by way of principal and emerging risks, with particular regard to recovery of trading performance, business transformation, Brexit, talent, safety, liquidity and funding, social responsibility, technical capability, business continuity, information security and corporate compliance. Risks are elaborated in detail along with the steps taken for their management and mitigation.

Next Plc also has an elaborate risk management and internal control system, which is overseen by the audit committee with the active participation of the risks steering group, the senior managers and the corporate compliance team. The principal and emergent risks are categorised in detail with particular regard to business strategy, product design and selection, key suppliers, warehousing and distribution, business critical systems, long-term liabilities, capital expenditure, information security, financial and treasury issues and legal regulatory and ethical compliance. The management and mitigation processes adopted by the corporation are elaborated in detail.

2.3.5. Report on Going Concern Basis of Accounting

The independent auditor's report of M&S states that going concern is the basis for preparation of financial statements on the assumption that an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

The independent auditor's report of Next Plc also provides information on the going concern issue and states that it is based on the going concern basis of accounting, including the procedures described with regard to the impact of the Covid-19 pandemic. The auditors have concluded that the director's use of the going concern basis of accounting in the preparation of financial statements is appropriate.

2.4. Directors Remuneration

2.4.1. Marks and Spencer

M&S's policy on remuneration for executive and non-executive directors is approved by shareholders at the AGM and includes base salary, benefits, pension, annual bonus and performance share plan. The total maximum annual bonus can go up to 200% of the salary for each director. Not less than 50% of any bonus earned is paid in shares, which are deferred for three years. Non-executive directors are also remunerated as per agreements that are approved by

shareholders. The fees of the chairman are determined by the remuneration committee, whereas the fees of the non-executive directors are determined by the chairman and executive directors. The maximum aggregate fees for the chairman and the non-executive directors is 750,000 GBP per annum. Additional fees are paid for undertaking extra responsibilities of board chairman, senior independent director and committee chair,

2.4.2. Next Plc

The remuneration committee at Next Plc has implemented the remuneration policy in accordance with the policy approved by shareholders at the last AGM. The base salaries for the executive directors range from 486,000 GBP to 824,000 GBP and increased by 0.6% in the current year. The annual bonus was cancelled on account of Covid-19 for the financial year 2020/21. However, no changes for bonus are planned for 2021 and a maximum bonus of 100% and 150% of salary for executive directors and the chief executive will be payable.

The fees of the chairman and non-executive directors were increased by 0.6% in February 2021. The chairman will be paid an annual fee of 346,112 GBP, whereas non-executive directors will be paid 59,339 GBP. An additional fee of 11,868 GBP will be paid to the chairman of the audit and remuneration committees, as well as the senior independent director.

3. Conclusions

This report examines, compares and contrasts various aspects of the corporate governance procedures of two UK based companies operating in the garment retailing sector, namely M&S and Next Plc. The examination revealed that both the firms have adopted the stakeholder approach for corporate governance and have elaborate procedures in place for effective corporate governance. The boards are responsible for establishment of strategy, monitoring of performance and corporate governance, including internal control. Systems and methods have been put in place for risk management and internal control. Both organisations also have detailed systems for remunerating executive and independent directors, though they differ from each other.