CORPORATE GOVERNANCE AT GREGG's (UNITED KINGDOM)

1.0 Contextual background

Greggs is a bakery and retail unit which can be found on the UK's high streets, local shopping places, retail, industrial and business parks, airports, bus/rail interchanges, universities and other locations where people live, work, travel and spend their leisure time. They are a baker and a retailer combination with upto ten regional bakeries supplying their 1,500 shops; a central savoury production unit, making all their savouries; and their own fleet of 375 delivery vehicles, to ensure their food is fresh each day for their customers. They believe they are different because they make and bake most of their food from scratch - their 'wheat to eat' proposition. In 2009, Greggs announced plans for another 600 stores, and has become bigger than fast food chain McDonalds, within the UK (BBC News, 2009).

They currently employ approximately 20,000 people and they plan to add 500 new shops in the next few years, creating up to 6,000 new jobs. Their regional bakeries bake food for daily delivery to their shops while having 90 in-store bakeries, with skilled craft bakers providing freshly baked food. They are expert bakers, with 289 Master Bakers, who have 2,254 combined years of baking experience. They hand make every single sandwich in each shop throughout the day. Sandwiches and savouries are made fresh each day and do not have sell-by dates. In March 2011, the company opened its 1,500th shop, in York (Greggs Internal Report, 2011).

a. Historical Background

The business began in the late 1930s when John Gregg delivered yeast, eggs and confectionary on his bicycle. The first small shop, with a bakery at the rear, opened in 1951. Under his son Ian's leadership, the first regional bakery was built in Newcastle and by the 1970s Greggs had expanded into Scotland, Yorkshire and the North West. In 1983, Michael Darrington took over from Ian Gregg as Managing Director and by 1984, with 261 Greggs shops across 4 divisions, the business was floated on the Stock Exchange (LSE: GRG). The rest of the decade saw expansion into the Midlands, Wales and North London. In 1987, Ian Gregg launched the Greggs Trust (now the Greggs Foundation), a registered charity to help support the communities in which Greggs operates. The 1990s saw further expansion into Cumbria as well as a new, state of the art savoury production centre at Balliol Park in Newcastle upon Tyne. Sir Michael Darrington's successor as Chief Executive, Kennedy McMeikan, took over in 2008. Greggs now boasts 1,500 shops, 10 regional bakeries, the savoury production centre, 2 distribution centres and 375 delivery vehicles.

Their people are passionate about baking and take great pride in their food. Each product is carefully prepared to give their customers quality and freshness at great value prices. They began as a family business. Today They still work together and grow together just like a real family. With over 20,000 people working at Greggs, They want everyone to enjoy the work they do and feel proud to be part of the Greggs family. The health and wellbeing of their people is of paramount importance and they have robust Health & Safety controls in place, designed to protect our people at work. They want their people to feel rewarded, valued and engaged in the business. They want all members of their Greggs family to share in their success when our business is doing well, that is why every individual working at Greggs is eligible for profit share, paid twice a year. They also offer SAYE (Save as You Earn) schemes, an annual Employee Opinion Survey. They promote equal opportunities and encourage diversity and inclusion via policies that ensure they do not discriminate on the grounds of age, gender, ethnic origin, religion or disability. They want to train and develop their people to ensure they are successful in their roles and can progress within the company. They offer a wide range of training and skills courses and are very proud that a high number of new appointments are internal promotions.

1.1 Reason to choose the Company

I chose Greggs Plc for this assignment as it shows uniqueness in its governance, policies, operations and management. I also personally like to eat from Greggs a lot – especially the doughnuts and savoury puffs and rolls. I faced a lot of problems in beginning this assignment as my PC crashed and lost all my data so I had to start from scratch and could not submit on deadline date. This company has a unique passion about itself which is very evident when you visit any of their stores and chat with any of their employees over the counter. They are awesome and I believe in their slogan 'Home of fresh baking' completely and they have one of my favourite British comedians Patrick McGuiness as brand ambassador. They also are involved with so much charity work especially they helped my country of Pakistan with aid during floods. On a more serious note, I read their annual reports and governance policies for their shareholders which seemed quite good and hence I thought this would be the best company to choose for my project.

2.0 Theories and its relevance

In this assignment, a range of theories will be examined ranging from governance to leadership. It will be important to analyses these since it will give broader definition for corporate governance and how it takes place in a company, here namely Greggs. The **UK Corporate Governance Code 2010** (from here on referred to as "the Code") is a set of principles of good corporate governance aimed at companies listed on the London Stock Exchange. It is overseen by the Financial Reporting Council and its importance derives from the Financial Services Authority's Listing Rules. The Listing Rules themselves are given statutory authority under the Financial Services and Markets Act 2000 and require that public listed companies disclose how they have complied with the code, and explain where they have not applied the code - in what the code refers to as 'comply or explain'.

2.1. Leadership

"Leadership" organizationally and narrowly is defined as "the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members" (House, R. J. 2004). One can also characterize leadership by the period of the authority, as in "During the 1940s Russia was under Stalinist leadership". In formal hierarchies the term can also serve to describe the position or relationships which allow and legitimize the exercising of what one might term "leadership behavior".

The biggest single mistake that people make about *leadership* is that they think leadership means *command. Command is the authority to lead. It is not leadership.* Leadership is often tied up with the problems of command, but the two things are completely different. Most organizations are structured much like the military. You see a defined chain of command, an organization chart, a track of authority, if you will that all decisions have to follow, as do all potential decision-makers. If you want to be a leader in such an organization, by definition, you must already be in a leadership position. You cannot lead from the lower ranks. You must start within a leadership track and become part of the command structure. Values based leadership is asserted to result in:

a) exceptionally strong identification of followers with the leader, the collective vision espoused by the leader, and the collective;

b) internalized commitment to the vision of the leader and to the collective;

c) arousal of follower motives that are relevant to the accomplishment of Attempts.

There is both theory and empirical evidence to suggest that value based leadership has a substantial effect on organizational performance. Waldman and his associates reported two studies of values based leader behavior as an antecedent to organizational profitability (Waldman, Ramirez & House, 1996; Waldman, Atwater & House, 1996). In these studies values based leadership accounted for between fifteen and twenty five percent of firm profitability over the three years following the time at which values based leadership was assessed. The consequences of Lack of VBL are very easy also to recognize in addition to previously mentioned signs. They include lack of innovation in organisations, erosion of competitive positioning, disillusioned staff, and torpid work force, severe risk aversion by staff and underperformance are typical symptoms. In addition to importance of VBL to organisations, it is very essential to consider the impact of corporate governance and how they both work together in attaining organisational performance.

It is important to also mention who leaders are and how they emerge. Every person has the potential to be a leader.

Types of Leadership:

All leadership is temporary but Leadership would be discussed under three types

- **Situational Leadership**

The best place to find out about situational leadership- the right person in the right place at the right time- is to read a daily newspaper. The news reports are full of people who responded to circumstances at exactly the right time to fulfill a leadership role. Situational leadership is all around us. To become a situational leader, one need to recognize when the time and the circumstances combine to require leadership. Also one must be willing and able to assume. To do these, one must listen, take responsibility for helping the group achieve its goal, and draw out the group's cooperation so that the goal can actually be reached.

- **Transitional Leadership**

Transitional Leadership exists when the time is right but the circumstances are wrong. In some instances, leadership is required at a certain moment, but the person who is the leader may not be capable of delivering leadership. The French expression 'faux pas', describes transitional leadership perfectly. Faux pas occur in social situations all the time, so one does not have to imagine too hard envisioning leadership situations where false steps lead to hasty exit for the leader (example – George Bush Jr.).

- **Hierarchical Leadership**

If transitional leadership is leadership that takes place when the time is right but the circumstances are wrong, then hierarchical leadership is the opposite: The circumstances are right but the time is wrong. The hierarchical leader typically is someone who assumes a leadership role because it is their turn by right if promotion or longevity in a job (or, in the case of monarchy, because of death or birth order).

The approach of listing leadership qualities, often termed "trait theory", assumes certain traits or characteristics will tend to lead to effective leadership. It is important to also mention the works of Sydney Finkelstein (2004) on 'the seven habits of highly unsuccessful executive and he is the author of why smart executives fail'. Behind each organisational failure stands towering figure e.g. former high flyers at Enron, Tyco, WorldCom etc. After spending six years studying more than 50 companies and conducting some 200 interviews, Sydney found that spectacularly unsuccessful people had seven characteristics in common.

2.2. Corporate Governance

Corporate Governance (CG) is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges. It can be viewed as subject, objective or as a regime to be followed for the good of shareholders, employees, customers, and banker and indeed for the reputation and standing of our nation and economy. Corporate Governance is a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other corporate affairs. By doing this it also provides the structure through which the company objectives are set, and means of attaining those objectives and monitoring performance. (OECD2004). OECDs' definition is consistent with the one presented by Cadbury (Cadbury 1992.)

3. Corporate governance principles and codes

The Code is essentially a consolidation and refinement of a number of different reports and codes concerning opinions on good corporate governance. The first step on the road to the initial iteration of the code was the publication of the Cadbury Report in 1992. Produced by a committee chaired by Sir Adrian Cadbury, the Report was a response to major corporate scandals associated with governance failures in the UK. The committee was formed in 1991 after Polly Peck, a major UK company, went insolvent after years of falsifying financial reports. Initially limited to preventing financial fraud, when BCCI and Robert Maxwell scandals took place, Cadbury's remit was expanded to corporate governance generally. Hence the final report covered financial, auditing and corporate governance matters, and made the following three basic recommendations:

- the CEO and Chairman of companies should be separated
- boards should have at least three non-executive directors, two of whom should have no financial or personal ties to executives
- each board should have an audit committee composed of non-executive directors

These recommendations were initially highly controversial, although they did no more than reflect the contemporary "best practice", and urged that these practices be spread across listed companies. At the same time it was emphasised by Cadbury that there was no such thing as "one size fits all".[3] In 1994, the principles were appended to the Listing Rules of the London Stock Exchange, and it was stipulated that companies need not comply with the principles, but had to explain to the stock market why not if they did not.

Greenbury recommended that progress be review in three years and so in 1998 Sir Ronald Hampel, who was chairman and managing director of ICI plc, chaired a third committee. The ensuing Hampel Report suggested that all the Cadbury and Greenbury principles be consolidated into a "Combined Code". It added that,

- the Chairman of the board should be seen as the "leader" of the non-executive directors
- institutional investors should consider voting the shares they held at meetings, though rejected compulsory voting
- all kinds of remuneration including pensions should be disclosed.

Shortly following the collapse of Northern Rock and the Financial Crisis, the Walker Review produced a report focused on the banking industry, but also with recommendations for all companies. In 2010, a new Stewardship Code was issued by the Financial Reporting Council, along with a new version of the UK Corporate Governance Code, hence separating the issues from one another.

Companies

- **Directors**

  This sets out the requirements for non-executive directors. The appointments committee should be run by NEDs and their independence should be assured by absence of any previous or present personal or business links.
- **Remuneration**

  This sets out guidance for the committee which determines director remuneration. Its principle is that of performance related pay. It is meant to complement the rules in the Companies Act 2006 which require a say on pay by the general meeting. The remuneration committee is meant to be composed of NEDs, although it allows for the Chairman of the board of directors to sit in.
- **Accountability and Audit**

Here rules are discussed about the audit committee, which is meant to be composed of only independent non-executive directors. In the wake of the Enron scandal, more emphasis has been placed on high standards of integrity.

- **Relations with Shareholders**

  This part sets out the best practice of maintaining good relationships with shareholders and keeping them well informed on company affairs.

- **Effectiveness**

  These provisions deal with a unique part of the UK financial market structure, which is great involvement and influence of institutional investors. Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect.

3.1 The Sarbanes- Oxley Act of 2002

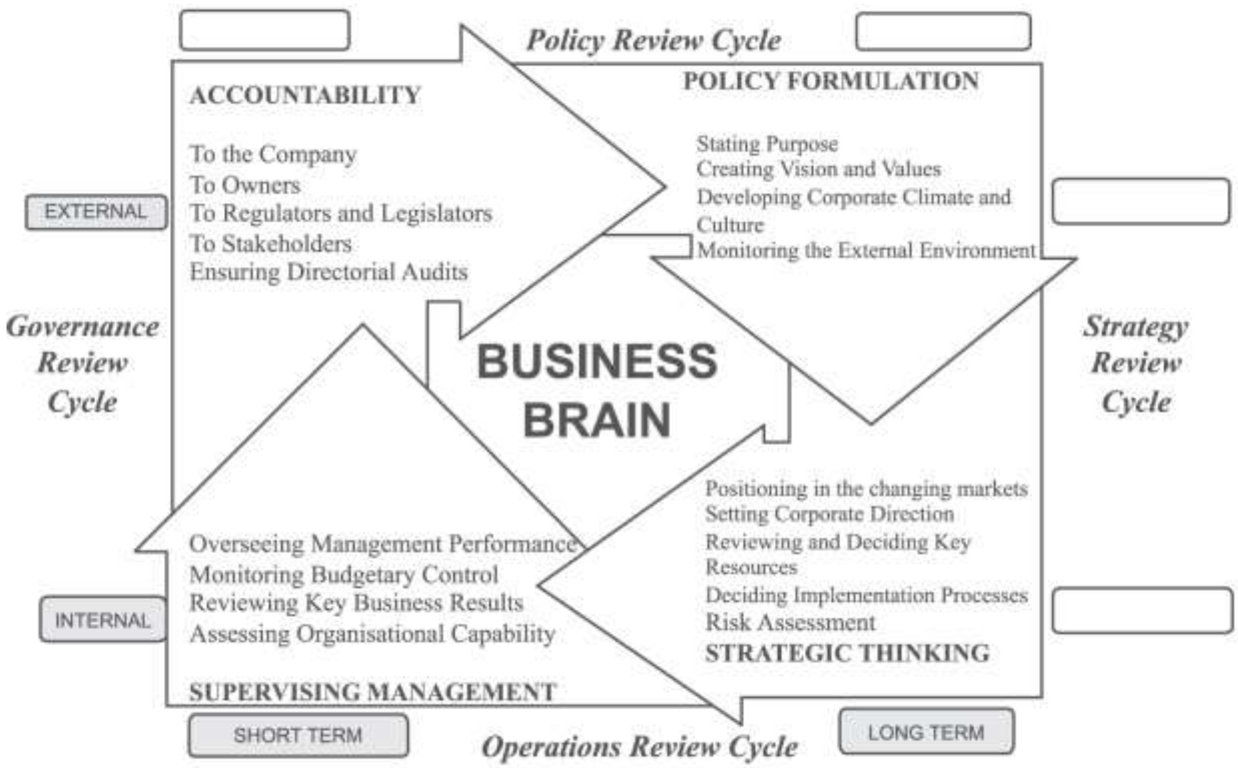
The **Sarbanes–Oxley Act of 2002** also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX; July 30, 2002) is a United States federal law passed in response to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, and WorldCom (now MCI). These scandals resulted in a decline of public trust in accounting and reporting practices. Named after sponsors Senator Paul Sarbanes (D–Md.) and Representative Michael G. Oxley (R–Oh.), the Act was approved by the House by a vote of 423-3 and by the Senate 99-0.

3.2. Governance - conformance vs performance

Effective corporate governance is about the exercise of the complex relationships between ownership, power, trust and anticorruption processes in the boardroom. I have come to understand, by contrast, that until the study and practice of appropriate behaviour and values behind the boardroom door is elevated to equal status with the compliance issues then we will not have effective corporate governance. To be effective it must be as much concerned with generating wealth for society (board performance) as about staying rigidly within the rules (board conformance). Board conformance is necessary but not sufficient. Sufficiency comes through the exercise of appropriate values, structures and processes in a board to generate added value for the owners, private or public, to achieve their purpose within the laws of their country.

The second process for effective board performance is to adopt The Learning Board Model which Garratt (2001) had developed is awesome to study (see Figure 1). Using a quadrant model, comprising on the horizontal axis the short-term and long-term perspectives, and on the vertical axis the external and internal perspectives, the following sequential flow of work for any board of directors is analysed:

● Policy Formulation/foresight.



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● Strategic Thinking (not Strategic Planning).

● Supervising Management.

● Accountability.

Board Performance is determined on the right side of the model – Policy Formulation and Strategic Thinking and Board Conformance is determined on the left side – Supervising Management and Accountability. The quality of board critical review and debate, under a neutral chairman, is essential as the external and internal worlds change frequently and the complex interactions between the two need constant monitoring for the board to be able to make business sense of the political, physical, economic, social, technological, trade and legal worlds. The public is becoming more demanding of the need for competent directors, rather than managers. In the UK the publication of the Turnbull Report for listed companies in 1999, and the Rutterman Report for the public sector, has helped concentrate minds wonderfully. Listed companies are now obliged to explain to their owners their processes for risk assessment and decision taking in their annual reports, or explain why they are not doing so. This is causing concern in many boardrooms as it throws up difficult questions of how precisely they do this now. Owners are beginning to ask just what does happen behind the boardroom door. So for directors to just carry on following a powerful Chairman or Chief Executive's gut feel will no longer be enough. In future boards are likely to have to report on a 'triple bottom line' – financial, physical environmental, and corporate social responsibility. To do that board conformance will certainly not be sufficient.

4. Corporate social responsibility

It is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders. The FTSE Group publishes the FTSE4Good Index, an evaluation of CSR performance of companies. The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones .

The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organisation,[12] or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programme. The business case for CSR within a company like Greggs will likely rest on one or more of these arguments:

1. **Human resources**

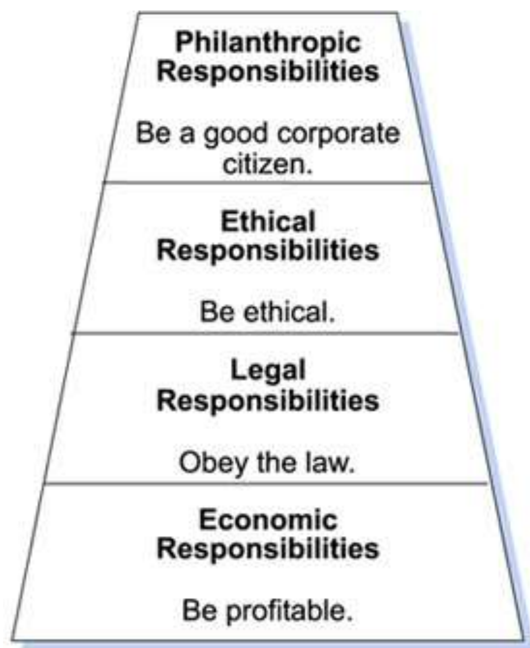
A CSR program can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been found to encourage customer orientation among frontline employees.

2. **Risk management**

   Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.

3. **Brand differentiation**

   In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values.



Source: Carroll (1996)

4.1 Carroll's model of CSR - PELE

While Corporate Social Responsibility (CSR) has been around since the 1950s, its importance and practice took hold much later. The basis of what we consider to be the modern definition of CSR is rooted in Archie Carroll's "Pyramid of Corporate Social Responsibility." In this Pyramid a corporation has four types of responsibilities. The first and most obvious is the economic responsibility to be profitable. The second is the legal responsibility to obey the laws set forth by society. The third, which is closely linked to the second, is the ethical responsibility. That is to do what is right even when business is not compelled to do so by law. The fourth is the philanthropic responsibility. Also called the discretionary responsibility, it is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. Nearly 20 years later the Pyramid remains highly relevant. It is regularly cited, debated, modified and criticized by academia, corporate leaders, politicians and social commentators. Let us analyse how CSR at Greggs works using the elements of PELE from Carroll's model:

Corporate Social Responsibility at Greggs

Greggs is a company that cares deeply about making a difference to the lives of people in their local communities. They made terrific progress in this area in 2010 with a record-breaking year in terms of the amount of money their customers and staff raised in support of local communities, through company led activities and the Greggs Foundation. Their achievements in the area of CSR are:

a. They shared 10 per cent of our profits, a record £5.8 million, with their people through their national profit share scheme, enabling them to share in the success of the company they work so hard for.
b. They now have 161 Breakfast Clubs, giving over 7,000 children a nutritious breakfast, free, every day.
c. A record year of fundraising as they helped raise and donate over £2.7 million:
    - £904,850 through BBC children in Need campaign
    - Great Bakery Bike Ride raised £90,000.
    - first ever Foundation Week, raising over £66,000 for the Greggs Foundation and resulting in donations to 50 charities chosen by our staff and customers.
    - following the earthquake disaster in Haiti our staff and customers raised £186,000 for the official campaign, followed by a further £92,000 for the Pakistan floods appeal.
d. Removed artificial flavours from the majority of products they make themselves without impacting taste which is a key concern for our customers.
e. They reduced our Carbon Footprint (tonnes of CO_2e) by 5 per cent on a per shop basis.
f. In 2010, a record £5.8 million was shared amongst eligible employees, with 16,800 people benefiting.
g. In opening a net additional 68 shops around the UK, they have created more than 650 new retail jobs for local people.

According to their 2010 Annual Report, Greggs has set out targets for 2011:

Our targets for 2011:

1. We will extend the Greggs Breakfast Club scheme to 180 supported clubs

2. We will donate at least 1 per cent of profits to the grant-making and Breakfast Club programmes of the Greggs Foundation
3. We will hold our second national fund-raising week for the Greggs Foundation, aiming to raise over £70,000
4. For the sixth year running we will engage our staff and customers in a major national fund-raising campaign to support the BBC Children in Need appeal
5. We will support Greggs sponsored fun runs and a second Great Bakery Bike Ride to help more of our people to fund-raise through exercise related activities
6. We will divert an increased proportion of our unsold food to local charities
7. We will continue to roll out initiatives to help break the cycle of unemployment for marginalised groups in our communities, utilising our skills as a major employer.

5. <u>Corporate Governance at Greggs</u>

So far, their Board recognises the importance of, and is committed to, high standards of corporate governance, and to integrity and high ethical standards in all of its business dealings.

The Board considers that it has complied, throughout the year under review, with the principles of governance set out in Section 1 of the Combined Code on corporate governance published by the Financial Reporting Council (the 'Combined Code') effective during the financial year.

The Board, under the chairmanship of Derek Netherton, meets regularly to discharge its duties. At these meetings, it reviews Group strategy, performance, resources, risk management and other matters reserved for the Board. Whilst the executive responsibility for running the Company's business rests ultimately with the Chief Executive, Kennedy McMeikan, the non-executive directors ensure that the strategies proposed by the executive directors are fully discussed and critically examined prior to adoption. In addition, the non-executive directors meet formally twice each year and from time to time, as required. The Board has a policy on the separation of the roles of the Chairman and the Chief Executive. All directors take decisions objectively and in the interests of the Company. The non-executive directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

6. Leadership at Greggs

Sales in the crucial Christmas week last year rose 16% compared with 2009, with coffee sales up 26%. More than 60 new stores were opened in 2010, and there are plans for another 500. As former retail director of Sainsbury's and boss of Tesco in Japan, CEO Ken McMeikan knows about making both kinds of dough, and chairman Derek Netherton was Schroders' head of corporate finance in the 1990s. They have assembled a high-powered board and a canny strategy that has seen Greggs' standing in the City rise faster than sales of its cheese-and-onion pasties. Their secret to success is Greggs' array of inexpensive sandwiches, hot pies and snacks (plus the odd regional favourite) is a sure-fire winner in New Austerity Britain. For the price of a coffee from one of the big chains, workers across the country can breakfast on coffee plus bacon or sausage roll at Greggs. And its network of 10 regional bakeries supplying numerous stores is cost-effective and flexible. With almost 1,500 stores, Greggs has now more outlets in the UK than fast-food giant McDonald's.

7. Conclusion

It is evident that Greggs is following the combined code quite well and it has also resulted in more profits and great achievements through their CSR activities. The Greggs formula is expanding in Britain and the employees say it themselves. As long as the board does not get greedy and engage in corruption, Greggs surely will dominate the market in its bakery products and give investors a good return. Although there have been minor issues within the company – it has made a strong effort to learn from its mistakes and maintain a clear vision. With its current leadership and board in place there has been no unethical issues that have taken place and the leadership is very hierarchical in nature. As far as corporate governance and its conformance is concerned – the two are taking place but conformity is very difficult to judge and only time will tell whether it wqs perfectly followed or not.

8. Recommendations for Corporate Governance at Gregg's

1. I strongly feel that more women should be included on the board as Greggs seems to be dominated my males at the senior level.
2. They should reduce bakery waste per shop

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