The directors board has a main function of controlling the top executives. When adopting a view of the firm as the shareholders property, it seems that the best executives' incentive is to give them stock options. However, when considering the firm as a framework of both explicit and implicit contractual relations, it appears that the top executives job is not only to satisfy the firm shareholders, but more generally to maintain the firm coalition alive and even to develop it. In that case, the directors board needs to receive some more detailed information in order to evaluate the top executives. We propose to rely on a reporting based on both an activity analysis and a stakeholder approach. The balanced scorecard model could even be a main support for the elaboration of the reporting information to the board.

Corporate governance appears to be one of the most important factors of performance for the public firms. In France, a 1999 report (called Vienot Report) from a group of public firms’ CEOs was entitled “Report from the committee on the corporate governance”. The main subjects of discussion were:

- The separation of the chairman and chief executive officer functions.
- The publicity of the top managers remuneration in the public firms.
- The publicity of the stock option plans in the public firms.
- The nature of the information released about identity and the functions of the Board members.
- The information on the Board meetings and on the Committees’ composition.
The aspects of the corporate governance which were discussed were in fact very strongly linked to the enforcement of the shareholders’ information and in some way to the shareholders’ empowerment. The focus on these aspects of corporate governance is not specific to France, as we observed the same interest in the United States, with the importance of the Pension Funds, and in Great Britain.

From a theoretic point of view, it seems that the firm is definitely apprehended as the shareholders property (Alchian and Demsetz 1972, Fama 1980, Jensen and Meckling 1976). Little is said about the other firm’s stakeholders just as the employees, the bondholders, or even the clients and the suppliers. However, according to some authors, it seems that the firm, as a nexus of contract (Williamson and Winter 1991), cannot be reduced to its shareholders but should embrace all its stakeholders (Cyert and March 1963, Mintzberg 1983, Freeman 1984).

One main difficulty of the stakeholder theory is that there is not a unified concept of stakeholders. We will rely on the discussion offered by Donaldson and Preston (1995). So our approach will be both instrumental and normative. However some questions remain. For whom should the firm well perform? And does is exist some performance optimum just as a Pareto optimum? Mintzberg (1983), when identifying the power in and around the organizations, took a very descriptive view and considered that the firm overall performance resulted of the relative power of the groups or individuals. As we will rely on a normative approach we will suppose that a firm will well perform if all the stakeholders are satisfied and gratified for their contribution to the firm overall performance.

In the corporate finance approach, the board is the main instrument of the shareholders to incite the CEO to maximize the shareholders’ return. In the stakeholders’ approach, the role of the board will be even more important, as it will not only control that the CEO main decisions comply with the shareholders’ interests, but also that all the other stakeholders are satisfied in order to keep the firm going on. From some point of view, the stakeholders’ approach is a way to relieve the CEO from an excessive attention to the short term financial results and to redirect its attention to the long term overall performance.

So, what would be the corporate governance modifications if, instead of adopting a shareholders viewpoint, we retain a stakeholder approach. We do expect the board to use more diversified mechanisms to control and motivate the CEO. Even more, we do think that the main point will be the diversified
information the Board will be able to collect to evaluate the impact of the CEO decisions and the effectiveness of the strategy implementation.

Unfortunately, most information dedicated to the Board is a financial reporting which offer little appreciation over the CEO real performance, as the main question about the performance observed is whether or not the cause of the problem lies in the person or the situation (Wong and Weiner 1981). So, the Board should conduct both managerial and environmental assessments (Walsh and Seward 1990). Usually, the Board will compare the company’s stock returns to other competitors’ return as an alternative to conducing a direct investigation of environmental constraints.

It seems that this Board information is far from sufficient to have a real control of the top managers. We do propose a simple approach of both the firm’s stakeholders and the nature of the information system which should be implemented to ensure a real Board information.

The article objective is then to propose a model where the reporting to the Board would rely on a good management control and would improve the corporate governance. We define the corporate governance (Charreaux, 1997) as: « all the mechanisms which are implemented for delimiting top executives' powers and influencing top executives' decisions », whether these mechanisms are implemented by the shareholders or by the other stakeholders.

1. THE TOP MANAGERS' PERFORMANCE

To define the top executives' performance, it is first needed to define the frame in which this performance will be appraised. The board of directors has the first task to control and evaluate the top executive officers and specifically the CEO (Muth and Donaldson, 1998). Even if the board is issued from the shareholders, it cannot rely only on measures of shareholders' wealth. It will need to assess the CEO actions according to the expectations of all the stakeholders, in so far as the key-factor for performance is the firm cohesion. Moreover, in some cases, the directors board may have to arbitrate between the demand of the diverse stakeholders (Coff, 1999).

1.1. The stakeholders framework for corporate governance: the stakeholders flower model

In corporate finance, the firm is usually considered as the result of "a complex process in which the conflicting objectives of individuals are brought
B. Pigé: Stakeholder theory and corporate governance: the nature of the board information

*into equilibrium within a framework of contractual relations*" (Jensen and Meckling, 1976, p.311). However, the contractual relations can be only explicit or both explicit and implicit. We will consider the firm as a nexus of explicit and implicit contracts. *"Thus, a firm is not simply the sum of components readily available on the market but rather is a unique combination, which can be worth more or less than the sum of its parts"* (Zingales, 2000, p.1633).

We can then consider that one of the CEO's main objective is to keep alive the coalition of diverse stakeholders (Mintzberg, 1982). If, according to the finance theory, we may expect the shareholders to pursue the firm market value maximization, the salaries or the clients could expect some other kind of performance. One good example is Microsoft which benefits of a kind of monopolistic position which is very beneficial for its shareholders but of a poor interest for the clients who have no choice but to buy Microsoft's products.

We will consider five different categories of stakeholders (Figure 1). The first one is composed of the executive officers who have to coordinate all the other categories (Alchian and Demsetz, 1972, Fama, 1980). The other stakeholders considered are:

- **The Customers**: if a flower has no roots, it won't last a lot of time. In the same sense, the customers are a vital necessity for a firm.

- **The Employees**: they are the key resources of a firm. Just as the plant leaf, they are needed to help the firm grow.

- **The Suppliers**: they do bring some other resources and, in some occasion, a part of internal resources (human resources) can be externalized and transmitted to some suppliers. So there exists some specific relations between the employees and the suppliers.

- **The Shareholders**: whether we consider that the firm should be managed in the shareholders' interest or not, it remains evident that the flower is the resultant of all the other parts of the plant. If one part of the plant has been hurt, the flower won't be so beautiful and in some cases it won't even exist.

Obviously, we could have enlarged our definition of stakeholders and we could have defined some other categories such as the government, the political groups, the communities and the trade associations (Donaldson and Preston, 1995).
1.2. The performance appraisal

According to our view of the firm, the executives' performance should also include some social performance. "Corporate social performance can be analyzed and evaluated more effectively by using a framework based on the management of a corporation's relationships with the stakeholders than by using models and methodologies based on concepts concerning corporate social responsibilities and responsiveness" (Clarkson, 1995, p.92). In order to appraise the top managers' performance, it will be necessary to retain some different indicators reflecting not only the performance for the shareholders, but also the ability to maintain the stakeholders' coalition. For instance, a good CEO, who every year outstrips the market, might be confronted to very serious strikes if he totally neglects the firm's working force. As a result, the firm's market value will also go down. So, we might consider that the first quality of a top manager is to control his firm. That means, he must have not only to take the good decisions but he must also have the good information and his decisions ought to be implemented.
Another main question relating the top managers' performance appraisal is to determine what the top managers should be held accountable for (Baker, 2000). In other words, which part of the performance belongs to the environment (the CEO good or bad luck) and which part belongs to the CEO. Just as a plant needs the sun to grow and to harmoniously develop (Figure 1), the firm development will depend on its environment. It is evident that the performance evaluation should not be the same if the market is very competitive or if there is an oligopoly or even a monopoly. In the same sense, it is usually more easy to perform correctly when the economy is booming than when it is recessionary.

According to Walsh and Seward (1990), the performance appraisal should include:

- The managerial assessment: "the board of directors needs to assess both the ability and efforts of the top managers of their organization" (p.424).
- The environmental Assessment: "administrative scientists have spent years trying to determine the extent to which strategic choice or environmental determinism shape organizational performance. (...) This leaves the board with the unenviable task of determining such an attribution of responsibility. (...) In fairness, the board should strive not to penalize managers for outcomes truly outside of their control" (p.424).

2. THE REPORTING DESIGN

The board of directors will need some specific information to assess the top executives performance. It is a vital necessity to design a reporting and a management control system which could offer this information to the board with a guarantee of quality and fairness.

2.1. The balanced scorecard analysis

The performance appraisal can only be done through a multi-criteria valuation. If the board of directors relies only on the financial results, it will react very slowly to any difficulties arising. So, the board of directors should ask for a kind of reporting similar to the one designed for the top managers through the balanced scorecard (Kaplan and Norton, 1992, 1993, 1996). "Several managers have asked whether or not the balanced scorecard is applicable to external reporting. If the scorecard is indeed a driver of long-term performance, shouldn't this information be relevant to the investment community?" (Kaplan and Norton, 1993, p.141).
The board should receive an information indicating the main actions undertaken and the main actors of these actions (Figure 2). So the use of both a model of strategic thinking and a stakeholder framework may help to reveal whether the CEO has the ability to really manage all his resources and to give a coherence to the entire firm.

2.2. The activity and process analysis

The financial accounting gives a fair and true view of the firm activity at a date and for a given period, but it does not explain the main reasons of the changes occurred, and it has difficulties to help predict the firm evolution. By contrast, the management accounting, when built over an activity analysis, allows a better analysis and an improvement of the reactivity to the environmental changes (Lardy and Pigé 2001).

Usually the directors board get the information transmitted by the CEO who relies on a hierarchical analysis. We do expect this information to be more pertinent if, instead to be all embraced through a hierarchical analysis, it is presented through a process reporting based on an activity analysis (Figure 3).
The CEO will always need the financial reporting to evaluate his subordinates. But the directors board is not concerned with these aspects. It is more interested with the information on the CEO ability to develop and improve the main firm processes (Figure 2). As each process is composed of several activities, we may imagine that the board could even get interested by a reporting on the activities.

2.3. The combination of both approaches

The reporting to the board will be best designed if it relies on both a process analysis and a balanced scorecard approach with references to the stakeholders. The executives should then provide a reporting model which would made appear the main firm processes with their objectives and their impact on the stakeholders' welfare (Figure 4).

We will try to provide an example of this approach based on the Orange (one of the leader mobile phone company) analysis.
For each process, it is necessary to determine what is the key function of the given stakeholder, and to retain a reporting indicator.

Figure 4. The combination of the stakeholders and the process approach

3. REPORTING, MANAGEMENT CONTROL AND CORPORATE GOVERNANCE: THE CASE OF ORANGE

We rely exclusively on the information released by Orange for its IPO (Initial Public Offering) in February 2001 with some subsequent information collected on the Net. Orange is the mobile telecom subsidiary of France Telecom, the French leader of telecom. We provide an information system designed to reduce the residual loss due to the information asymmetry. We use an approach relevant to the main stakeholders, even if we expect the directors board to have the key function in controlling the CEO.

3.1. Orange’s main processes

Orange organization is based on four business units (Figure 5). This organization is related to both a geographical and historical approach (the distinction between the United Kingdom and the French activities) and the nature of the services provided (the existence of a business unit for the diversified activities).

The subsidiaries are different for each country of establishment, so the board could have information for every country unit. But a group is relevant only if the total is of a greater value than the sum of the parts. With this kind of information, the board will know the value of the parts (how successful are the business units in each country), and it will know the total value (which is then the result of the sum of the parts), but it will not be able to determine the factors which help generate synergies and it will have difficulties to discriminate among the environment impact and the top management ability to have a real strategy.
The key information about the success or the failure of Orange, is the information on the top managers ability to develop transversal activities, that means activities which can be duplicated through all the countries and which allow customers who travel throughout Europe to have the same kind of services (even if some differences exist). So, the information addressed to the board should be fragmented through the main processes, of which the first six processes are indicated by Orange, while we added the last two ones (Figure 6).

Figure 5. Organization chart of Orange SA

Figure 6. Orange's main processes

Figure 6 simplifies the activity analysis as we may think that some processes should be divided in activities. For instance, the technical servicing contains different aspects: the geographical territory cover, the frequency of call shut down, etc…
3.2. Orange’s main stakeholders

As many public firms, Orange has one main shareholder. It is also specifically dependent to some suppliers (Figure 7). There is a strong European concurrence as the market is relatively new and fast growing.

![Figure 7. The Stakeholders' Flower Model applied to Orange](image)

3.2.1. France Telecom: the majority shareholder

After the IPO, France Telecom detains between 79.4% and 84.5% of the capital according to the bonds which are detained by the public and which can be converted into Orange shares. The chairman of France Telecom board is also the chairman of Orange board. Orange chief executive officer is also member of France Telecom executive committee.

France Telecom information will then be ensured by Orange top executives. However, Orange's objectives may not always be the same as those of France Telecom. One solution usually proposed is to give large amounts of Orange's stock options to the top managers. However, it could result in an arbitrage between France Telecom and Orange and if the executive officer is only interested by money, he will favor the firm where his monetary rewards
will be the greatest. Another solution is to try to reduce the information asymmetry by giving relevant information to Orange board.

3.2.2. The minorities shareholders

People who subscribed to Orange IPO are first interested by the share price. So the board needs to have a look on it. However, the firm market value is the result of the decisions implemented by the executives, not the opposite. To do its job, the directors board needs to consider some indicators related to the other stakeholders. Moreover, there is a need to some specific indicators for measuring the repartition of the created wealth between the minority shareholders and France Telecom.

3.2.3. The employees

Employees will contribute strongly to Orange development if they perceive it as being beneficiary to them. The firm development usually helps the employees to keep their job and even to be promoted for some of them. We may then retain some indicators which should obviously be completed (Figure 8).

![Employees' expectations and reporting](image)

For Orange, these indicators take the following values (Table 1). These values should be analyzed through the diverse processes, in order to observe whether or not the employees are interested in their improvement (this information is obviously not public, so we present only the consolidated data).

Moreover, the board of directors decided on his 12/01/2001 meeting to grant 75 million shares options which can be exercised between 2004 and 2011 at a price of 10.00 Euros. These plans concern around 13 000 individuals.
Table 1. Indicators on employees expectations

<table>
<thead>
<tr>
<th></th>
<th>31/12/2000</th>
<th>30/06/2000 (6 months)</th>
<th>31/12/1999</th>
<th>31/12/1998</th>
<th>31/12/1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of employees</td>
<td>24 282</td>
<td>22 252</td>
<td>17 239</td>
<td>12 301</td>
<td>9 471</td>
</tr>
<tr>
<td>Salary expenses (millions Euros)</td>
<td>999</td>
<td>449</td>
<td>666</td>
<td>432</td>
<td>315</td>
</tr>
<tr>
<td>Average salary per employee (thousand Euros)</td>
<td>41.1</td>
<td>40.4</td>
<td>38.6</td>
<td>35.1</td>
<td>33.2</td>
</tr>
<tr>
<td>% of employees internally promoted (*)</td>
<td>4.7%</td>
<td>4.5%</td>
<td>5.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% salaries expenses allowed to the formation (*)</td>
<td>5.54%</td>
<td>6.13%</td>
<td>6.77%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of working days lost for strike (*)</td>
<td>30 871</td>
<td>175 353</td>
<td>23 845</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of working days lost for job accidents (*)</td>
<td>56 203</td>
<td>63 018</td>
<td>52 910</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Data for the France Telecom group (including Orange)

3.2.4. The customers

Two factors seem determinant for Orange development (Table 2):

- The evolution of the number of customers: with an approach through the kind of services subscribed.
- The evolution of their consumption: how much do the customers pay for the different services subscribed and how do they use them.

This information must be relativized by the market evolution.
Table 2. Indicators on customers expectations

<table>
<thead>
<tr>
<th></th>
<th>31/03/2001</th>
<th>31/12/2000</th>
<th>31/12/1999</th>
<th>31/12/1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market share:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>25,4%</td>
<td>24,5%</td>
<td>20,4%</td>
<td>16,6%</td>
</tr>
<tr>
<td>France</td>
<td>48,2%</td>
<td>48,2%</td>
<td>48,7%</td>
<td>49,6%</td>
</tr>
<tr>
<td>Other European countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Orange’s controlled customer base:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>prepay</td>
<td>13,7 M</td>
<td>6,1 M</td>
<td>1,7 M</td>
<td></td>
</tr>
<tr>
<td>contract</td>
<td>10,4 M</td>
<td>8,9 M</td>
<td>6,0 M</td>
<td></td>
</tr>
<tr>
<td>not detailed</td>
<td>6,4 M</td>
<td>3,2 M</td>
<td>1,2 M</td>
<td></td>
</tr>
<tr>
<td><strong>Average use per customer (minutes):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>159</td>
<td>175</td>
<td>174</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>147</td>
<td>160</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.2.5. The suppliers

As noted, in the prospectus of IPO (p.129), "the group is dependant of a limited number of suppliers for its network equipment and maintenance. Its results could be affected in a significant way if these suppliers would not furnish to the group the adequate equipment". So, the indicators used should indicate the capacity of the network, its average availability (does the network be able to respond to a sudden increase of the traffic), the number of key suppliers and the average turnover realized with each of them.

3.3. The reporting indicators for the marketing process

For a process, the reporting indicators should allow the directors board, but also the other stakeholders, to get information on the performance. One key aspect of this reporting is the choice of indicators, which are not necessarily derived from the financial accounting.

For instance, according to Orange, the marketing activity aims to let know to the public the different offers. It is quite simple to collect the financial data about the costs incurred for this activity. But it will be necessary to determine some cost driver in order to determine what incurs a change in the resources consumed. Moreover, some performance indicators must be defined in order to establish a relation between the resources consumed by this activity and the result obtained. We may imagine that the board could receive a sheet containing
the resources consumed, the notoriety of the different offers (for instance through the use of customer inquiries), the market share, etc. (Figure 9).

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Customers</th>
<th>Employees</th>
<th>Suppliers</th>
<th>Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>To let know to the public the different offers</td>
<td>To enhance the image of the firm</td>
<td>To develop a good relationship with the advertising agencies</td>
<td>To improve the profitability of the firm</td>
</tr>
<tr>
<td>Indicator</td>
<td>The knowledge level of the different offers</td>
<td>The level of positive opinion for the brand or for the firm</td>
<td>* The number of televised spot</td>
<td>* The return on investment</td>
</tr>
<tr>
<td></td>
<td>The market share of the firm</td>
<td>* The value of the advertising</td>
<td>* The elasticity of the demand to the advertisement</td>
<td>* The market share of the firm</td>
</tr>
</tbody>
</table>

Figure 9. The reporting of the marketing process

4. CONCLUSION

In the twenties, Ford decided that he could both pay more his employees and lower the price of the cars as he hoped to receive an increasing amount of order. His strategy was a winning-winning strategy where both stakeholders would profit and in return the shareholders would see a greater investment return. As the main shareholder, Ford was the primary beneficiary of this strategy.

Today, Orange try to develop a strategy similar by proposing specific offers to its customers in order to increase the amount of the time consumed with their phone. The main difference is that the directors board should get information on the evolution of this new wealth repartition. To be able to evaluate the top executives, the board will need to get specific information on the effectiveness of the strategy implemented for all the firm stakeholders.

We do think that the best reporting design for the board should include an approach based on both the stakeholders and the processes analysis. One key element to join both aspects would be to rely on a model similar to the balanced scorecard.
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B. Pigé: Stakeholder theory and corporate governance: the nature of the board information


**TEORIJA ZAINTERESIRANIH STRANA I KORPORACIJSKO UPRAVLJANJE: PRIRODA INFORMACIJA NAMIJENJENIH NADZORNOM ODBORU**

Sažetak

Temeljna funkcija nadzornog odbora je kontrola top managera. Ukoliko se prihvati ideja poduzeća kao vlasništva dioničara, čini se da je najbolji način motiviranja top managera dodjela opcija za kupovinu dionica. Međutim, kada se tvrtka promatra kao skup eksplicitnih i implicitnih ugovornih odnosa, proizlazi kako posao top managera nije samo zadovoljavanje dioničara tvrtke. Obaveza top managementa se, u tom slučaju, može izraziti kao održavanje i razvoj koalicije strana zainteresiranih za poduzeće. Tada nadzorni odbor mora dobiti opsežnije informacije kako bi mogao procijeniti uspješnost top managementa. U ovom se radu predlaže izvještavanje utemeljeno na analizi aktivnosti i pristupu zainteresiranih strana. Pritom bi za detaljnju razradu informiranja nadzornog odbora mogao poslužiti model "balanced scorecard".