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## Tax

**Manuel Castelo Branco**

Considering, for example, Carroll's influential view of corporate social responsibility (CSR) as encompassing the economic, legal, ethical, and discretionary responsibilities that a firm has to its stakeholders [1], it is not difficult to establish connections between taxation and CSR, albeit conflicting ones. From the economical perspective, the reduction of a company's tax burden improves its profitability and increases shareholder wealth. From the society's point of view, taxes are indispensable in supporting governmental social programs (such as education, public health care, public transport, among many others). Hence, from a broad CSR perspective, the tax strategy of a corporation can be viewed either positively or negatively.

The association of the payment of corporate taxes with CSR is most often made by considering its implications for the wider community, in view of its role as a means of financing public goods provision [2]. However, corporate taxation also is one important way through which the state intervenes directly in the affairs of corporations, and in that capacity of regulatory tool it is "an important element in managing the delicate balance between corporations, society, and the state" [3].

Nowadays, as a result of the rise of MNEs, which has significantly weakened the regulatory power of the state, one important justification of corporate taxation pertains to the importance it has as a means of the state, as representative of the people, limiting the excessive accumulation of power in the hands of corporate

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management [3]. In this perspective, corporate taxation has both a "limiting function" and a "regulatory function". The former function pertains to the direct limitation of the rate of corporate wealth accumulation, whereas the latter has to do with the provision of incentives and disincentives to particular corporate activities deemed beneficial to society as a whole [3].

[1] Carroll, A. (1991). The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. *Business Horizons*, *34*, 39–48.
[2] Lanis, R., & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting and Public Policy*, *31*, 86–108.
[3] Avi-Yonah, R. S. (2004). Corporations, Society, and the State: A defense of the corporate tax. *Virginia Law Review*, *90*(5), 1193–1255.

## Tax Avoidance

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Tax avoidance is one of the various possible strategies a corporation can use to minimize its tax burden. Thinking in terms of a "tax minimisation continuum" [1], tax avoidance may be considered the less legitimate of the legal tax minimisation strategies (the other major legal practice being tax planning).

It is possible to consider three broad categories of strategies corporation use to practices tax avoidance [2]: first, a corporation can manipulate the prices of goods and services charged internally within the firm, namely by using transfer pricing strategies; second, it is possible for a corporation to arrange its corporate structure and ownership of assets in ways that reduce its tax burden, for example by creating subsidiaries in tax havens; third, it can use certain alternative financing arrangements to gain maximum tax benefit, like thin capitalization.

Whatever the view of the firm one has, corporate strategic behaviour conceived specifically to minimize taxes by way of tax avoidance strategies that is at the expense of society as a whole is not consistent with the notion of corporate social responsibility (CSR) [3]. If one views the corporation as a "real world" entity with social obligations and considers that the payment of corporate tax does affect society, namely through its importance in funding governmental social programs, the CSR obligation is that a corporation should pay its fair share of the tax [3].

[1] Williams, D. F. (2007). *Tax and corporate social responsibility*. London: KPMG.

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[2] Jenkins, R., & Newell, P. (2013). CSR, tax and development. *Third World Quarterly*, *34*(3), 378–396.
[3] Avi-Yonah, R. S. (2008). Corporate social responsibility and strategic tax behavior. In W. Schön, (Ed.), *Tax and corporate governance*. Berlin Heidelberg: Springer.

## Tax Evasion

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Tax evasion is one of the various possible strategies a corporation can use to minimize its tax burden. It involves misrepresenting facts to tax authorities by misstatement, concealment or omission [1]. Prominent examples of tax evasion are not declaring income for tax purposes, false accounting or false invoicing on traded goods [2]. Given that it is illegal, it is not considered a legitimate strategy.

Whatever the view of corporate social responsibility (CSR) one takes, whether the broader view that encompasses legal responsibilities or the stricter approach which limits CSR to voluntary initiatives, corporate practices that contravene the law always amount to socially irresponsible courses of action. However, this is only straightforward in the case of the tax evader. The same is not the case for the entities assisting the tax evader [3]. Consider the case of a bank operating in a tax haven that allows the opening of accounts without asking for personal information which would permit the assessment of the illegality of an activity such as the transference by an individual of portfolio capital to the tax haven, benefiting from bank secrecy or financial trust laws to hide this activity [3]. Some would construe the obligation of obtaining the relevant information as a social responsibility of the tax planner [3]. Any steps taken by a corporation to mitigate the harmful effects of third-party tax evasion on the economic well-being of society would presumably be a socially responsible course of action [1].

[1] Williams, D. F. (2007). *Tax and corporate social responsibility*. London: KPMG.
[2] Jenkins, R., & Newell, P. (2013). CSR, tax and development. *Third World Quarterly, 34*(3), 378–396.
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## Tax Planning

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Corporate tax planning is one of the various possible strategies a corporation can use to minimize its tax burden. Considering the "tax minimisation continuum" proposed by David Williams [1] it may be thought of as the most legitimate tax minimisation strategy. The other strategies range from the illegal tax evasion to legal but less legitimate tax avoidance.

Given that taxes may be thought of as a cost for the corporation, tax planning amounts to strategic behaviour designed to reduce this cost, increase profitability, and enhance shareholder value, without being at the expense of society as a whole. Tax planning may be defined as "the organising of genuine commercial transactions in such a way as to give the lowest possible tax charge or, strictly, the highest possible after-tax profit" [1]. An example of this would be responding to tax incentives provided by governments to encourage certain activities [2].

Given that in both cases there is compliance with the law, the main difference between tax planning and tax avoidance seems to lie in the intention of avoiding or not the purpose or spirit of the law. In a recent briefing of UK's HM Revenue & Customs on "Tackling tax avoidance", a distinction between these two strategies of minimising the tax burden is made on similar grounds [3]: contrary to tax avoidance, which amounts to "bending the rules of the tax system to gain a tax advantage that the legislator never intended", tax planning "involves using tax reliefs for the purpose for which they were intended".

[1] Williams, D. F. (2007). *Tax and corporate social responsibility*. London: KPMG.
[2] Jenkins, R., & Newell, P. (2013). CSR, tax and development. *Third World Quarterly*, *34*(3), 378–396.
[3] HM Revenue & Customs. (2012). *Tackling tax avoidance*. Accessed on 7 October, 2013, http://www.hmrc.gov.uk/about/briefings/briefing-avoidance.pdf.

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# Theory of Simultaneous Maximization

**Carmela Gulluscio**

The theory of simultaneous maximization was formulated by Onida [1] and represents an example of how Corporate Social Responsibility is interpreted in Europe.

According to market-based systems (especially widespread in the Anglo-Saxon countries), the managers believe that the shareholder is the most important stakeholder, and his main interest is to maximize dividends. However, bank-based systems (particularly common in Europe) adopt a multi-stakeholder approach, which tries to protect, at the same time, the interests of different stakeholders (customers, employees, shareholders, etc.).

According to Onida, firms not only generate wealth, but also distribute it among their stakeholders. Firms are required to simultaneous optimize dividends, internal funds and wages. Moreover, selling prices should be appropriate to expand the demand for goods and services.

Firms distribute their wealth through four main channels:

- dividends;
- internal funds;
- wages;
- prices.

Apparently, these channels are in conflict among them, especially on the short-term, but in the medium to long-term horizons they are mutually reinforcing. In fact, internal funds (as self-financing) limit the opportunity to distribute dividends. However, in the medium to long term, it leads to more stable yearly income. In case of negative economic situation, the firm can draw on earnings accumulated in previous years, keeping on with the distribution of profits which are consistent and stabilized over time. Moreover, the ability to continuously distribute adequate dividends consolidates market confidence in the firm, which is in this way able to obtain loan capital at advantageous conditions. Thus the firm's profitability is safeguarded, and it is able to continue steadily over time to implement self-financing policies.

The firm must also practice a careful wages policy. To this end, it is counterproductive to simply lower wages, since this will demotivate workers who, therefore, will lower the productivity of labor. For the firm it is instead important to lower the overall cost of labor, without reducing the wage per capita (and if possible increasing it). This is possible through an increase in labor productivity. To survive permanently, firms do not need to minimize wages. Rather, it is required to pay a satisfactory remuneration to employees. Such a remuneration should be proportional to increases in labor productivity.

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Furthermore, the firm survival does not require the maximization of neither selling prices nor the difference between prices and production costs. Rather, the firm is expected to reduce both selling prices and the difference between prices and production costs, so that selling prices can increase the demand of goods or services.

[1] Onida, P. (1971). *Economia d'azienda*. Torino: Utet.

## Territorial Social Responsibility

### Mara Del Baldo

The concept of Territorial Social Responsibility (TSR) has not been adequately studied, and only recently the European Commission has formally considered the territorial dimension of CSR (Corporate Social Responsibility) [1]. Territorial Social Responsibility is a form of governance cultivated through the diffusion of CSR and sustainability-oriented strategies that are promoted by networks of local actors—public and private, for-profit and not-for-profit (institutions, trade union associations, universities, chambers of commerce, businesses, non-profit organizations, social enterprises, foundations, banks, professional orders, civil society)—who come from the same territory and whose policies are oriented toward sustainable development. When there is a common aim to improve the quality of life that ties together individuals and organizations belonging to the same territory, it is possible to introduce the notion of territorial social responsibility, founded on the rediscovery of shared values that the territory's economic, social, and institutional stakeholders know how to reinforce, thanks to solid networks of relationships. The multi-stakeholders approach to applying CSR to the territory revolves around the value of participation, respect, and the recognition of roles. SMEs (small and medium-sized enterprises) deeply embedded in their respective territories ("territorial companies") play a primary role in promoting pathways of territorial social responsibility, thanks to their rootedness the local contexts (city, province, and region) in which they operate [2].

Recognizing the cultural dimension of CSR, its connection with anthropological and environmental factors present in a given territory [3] means that the territory itself becomes the place in which avenues of sustainable development can be concretely constructed through territorial networks which become a true laboratory of CSR.

[1] EU. (2011). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee

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of the Regions. A renewed EU strategy 2011–14 for Corporate Social Responsibility. COM 681 final. Brussels, 25.10.2011.
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## Tipping Point

**Phillip Gordon**

A "Tipping Point" is the concept that a certain type of widespread event can happen suddenly as a result of one or more small changes; similar in a way to the physical world where a few dislodged sand grains can cause a dune to collapse [1]. The concept was introduced by Malcolm Gladwell in his book with the same name [2].

The concept is applicable to such phenomena as climate change, revolutions, and social upheavals, as well as to the seemingly "viral" spread of brands and entertainment, and to behavior change such as smoking.

It is often dependent on "influencers," people with many social connections who act to spread the idea, product, entertainment, etc., because other people pay attention to their opinions, behavior, style, etc. It is also dependent on what Gladwell calls "stickiness," the ability of an opinion, idea, product, etc. to be sufficiently memorable that it makes an impression not only on influencers but on their social connections as well. It can also be dependent on the size of the group; smaller groups make change more effective and efficient, something Gladwell refers to as the "Rule of 150." Any group larger than that slows down the transmission of, and increases resistance to, change.

Unfortunately, Tipping Points can also occur with socially and physically destructive behavior, such as murder, suicide, smoking, and adolescent sexual activity [3].

[1] Structured criticality, Accessed on 11 March, 2013, from http://en.wikipedia.org/wiki/Structured_criticality
[2] Malcolm, G. (2002). *The tipping point*: *How little changes can make a big difference*. New York: Little, Brown and Company.

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[3] Bearman, P. S., Moody, J., & Stovel, K. (2004). Chains of affection: The structure of adolescent romantic and sexual networks. *Am J of Sociology*, *110* (1), 44–91.

# Tobacco

**Wolfgang Hein**

German scientific research in the 1930s revealed a connection between lung cancer and smoking, but after World War II said research was discarded because of perceived associations with Nazism. In 1952, Richard Doll (UK) again identified the causal link between smoking and lung cancer, but despite some regulatory measures such as partial advertising bans, health warnings on tobacco packages etc., smoking prevalence continued to rise in the developed world in the following three decades, with governments sometimes reluctant to curtail a habit seen as popular and systematic disinformation efforts by the tobacco industry. A 1962 overview by the British Royal College of Physicians and the 1964 report of the U.S. Surgeon General helped to realize that tobacco use could only be effectively reduced by a multi-pronged policy response combining positive health messages with medical assistance to cease tobacco use and effective marketing restrictions. During the 1980s and 1990s debates and political campaigns increasingly focused on the damage to health resulting from smoking [1, 3].

In 1988 the World Health Organization (WHO) established the *World No Tobacco Day*, and in 1998 the *Tobacco Free Initiative* (*TFI*) was founded by WHO to rally support for the negotiations on the *The Framework Convention on Tobacco Control*, FCTC), which was adopted by the World Health Assembly in 2003 and came into force in February 2005 when 40 State Parties had ratified the Convention (today signed by 177 states). The United Nations Ad Hoc Interagency Task Force on Tobacco Control was established in 1999 by the UN General Secretary to coordinate the task to control tobacco consumption among the 17 UN agencies and two external organizations involved. The Framework Convention Alliance (FCA) organizes more than 350 NGOs to support the FCTC. The TFI is now strongly involved in network-building between tobacco control and other health programs within and outside WHO, supported by the Bill & Melinda Gates Foundation and Bloomberg Philanthropies.

Supporting tobacco control is an important aspect of public health ethics [2]. While the tobacco industry has been fighting WHO activities in this field for a long time (a WHO/TFI publication reads "*Tobacco industry and corporate responsibility. An inherent contradiction*"), Socially Responsibly Investment Funds frequently have refused to invest in tobacco- related enterprises and projects. CSR activities by

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tobacco companies started by charitable activities in various social sectors but now also adhere to harm reduction strategies in smoking, such as bans on advertising and restricting the availability of tobacco to children [4, 5].

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[3] Wikipedia, *Tobacco control*. Accessed on 29 Aug, 2013, from en.wikipedia.org/wiki/Tobacco_control.
[4] Hyatt, J. B. (1996). Corporate giving—Philip Morris launches $100 M anti-hunger drive. *Philanthropy Journal Online*, 10 March. Accessed on 3 Feb, 2014, http://legacy.library.ucsf.edu/tid/hzb60d00.
[5] British American Tobacco (Website): Corporate Social Investment/ Health and Science, http://www.bat.com/group/sites/uk__3mnfen.nsf/vwPagesWebLive/DO52AD87?opendocument&SKN=1.

## Tobin Tax

**Matthias S. Fifka and Lisa M. Fleischhauer**

The Tobin Tax was developed by James Tobin in 1978. It is based on John Maynard Keynes' recommendation to introduce a tax on the financial transactions of companies in order to reduce risky short-term speculations. Tobin's proposition involves a worldwide tax on international monetary transactions [1]. Its goal is to discourage foreign exchange traders from engaging in short-term currency speculation and to encourage economically sensible long-term investments in currencies. It shall thus stabilize the global currency market. Tobin proposed to set a tax rate at a value between 0.05 and 1.0 % of the transaction value. The revenues gained from the tax should, in Tobin's model, be used to counteract problems and crises arising on the global financial market.

Problems which might be linked to the introduction of a Tobin Tax include, among others, the actual organization and implementation of a worldwide tax itself. This is also connected to the introduction of an international surveillance and enforcement institution to control the tax and the distribution of tax revenues, i. e., who receives them and what should they be used for. In addition, the setting of the tax rate might be problematic, as investors are not deterred from short-term speculation if the rate is too low. A rate set too high, however, poses a serious threat to the global economy, as it heavily limits trade.

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The introduction of a tax similar to Tobin's propositions is currently being discussed in the European Union in connection with the financial transaction tax. Such a tax is already imposed on certain areas of trade in a few European countries including France, Belgium, Cyprus, Ireland, Finland, and Greece. Additional countries, including Germany, currently consider its implementation as well. Countries with important financial centers such as the U.K. or the U.S., however, still heavily oppose the tax in fear of damages to trade [2].

[1] Tobin, J. (1978). A proposal for international monetary reform. *Eastern Economic Journal*, 4(3/4), 153–159.
[2] Dietlein, G. (2012). National approaches towards a financial transaction tax and their compatibility with European Law. *EC Tax Review*, *21*(4), 207–211.

## Total Quality Management

**Ceren Altuntaş**

Quality is defined as fitness for purpose or use [5, 1] and conformance to requirements [3]. Total quality management is the philosophy and the action of the management function that plans, controls and improves the whole entity with the aim of achieving excellence in accordance with customer requirements. It is a management perspective which is different from the classical approaches to management which are product-oriented, detection and quality control-focused and hierarchically organized. Total quality management philosophy is customer-oriented, prevention-focused and horizontally organized through quality teams. The application of quality principles is the duty of everybody working in an organization.

This management philosophy has flourished in Japan after World War II although the first statistical control applications were put into place in the USA in Bell Telephone Laboratories by Shewhart. Quality experts like Deming and Juran trained Japanese managers and engineers in quality management and the total quality management principles spread among Japanese companies starting with the automotive industry. In the mid 1980s, the American manufacturing industry also adopted total quality management principles and initiated a transformation in their management processes [2].

There are eight principles of total quality management. These are customer focus, leadership, employee involvement, process approach, system approach to management, continuous improvement, factual approach to decision making and mutually beneficial supplier relationships [4]. All in all, this management philosophy states that customer requirements are essential. All manufacturing activities should be realized in accordance with them. A transformational and delegating

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leader should create a quality culture in the company, and quality should be managed by teams composed of employees from every department and layer in an organization. The specific work steps that are replicated in achieving certain outputs should be defined and managed in an integrated manner with the other components of the whole system. Decisions should be made with reference to actual performance; performance in turn is frequently measured and assessed. Long-lasting relationships should be established with suppliers in order to sustain quality. These practices should continuously be improved through the utilization of quality improvement tools and techniques in order to achieve sustained excellence.

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[3] Crosby, P. B. (1979). *Quality is free*: *The art of making quality certain*, New York: McGraw-Hill.
[4] International Organization for Standardization (ISO). *Quality management principles*. Accessed on 25 Feb, 2013, http://www.iso.org/iso/qmp_2012.pdf.
[5] Juran, J. (1988). *Juran on planning for quality*. New York: Collier Macmillan

## Trade Union Recognition

**Martin Quinn**

A key issue for the trade union movement is recognition of the union. A trade union can be said to be recognized when an employer agrees to negotiate with the union on pay and working conditions for the workers represented by the union.

The recognition of trade unions can be voluntary or statutory. Voluntary recognition implies an employer agrees to recognize a trade union without the use of any legal procedures or enforcement by legislation. Voluntary recognition of trade unions exists in countries such as Australia, Ireland and New Zealand. Statutory recognition implies a trade union must be recognized once certain conditions, typically dictated by legislation, have been met. The United States, Canada, and the United Kingdom for example operate adopt this approach. A different approach to statutory union recognition is that adopted by Scandinavian countries, where an automatic right to be represented exists [1]. Trade unions prefer statutory recognition, as they have a legal basis to force employers to recognise and negotiate with the union. Voluntary recognition may be favourable in that it may contribute to a sense of trust between the employer and the union.

Employers can engage in non-recognition strategies such as offering generous pay and conditions or at the opposite end, hinder or block unions in a voluntary

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recognition environment. Non-recognition of trade unions is more typical of Anglo-Saxon countries, where unions are sometimes perceived as being anti-business. Other countries which adopt a more social approach to trade unions, for example Germany and the Scandinavian countries tend to treat trade unions as organization partners and recognition is less of an issue.

[1] D'Art, D., & Turner, T. (2003). Union recognition in Ireland: One step forward or two steps back? *Industrial Relations Journal, 34*(3), 226–240.

## Transaction Cost Economics

**Rodica Milena Zaharia**

Transaction cost economics (TCE) refers to economizing the costs induced by any economic exchange (transaction) that an organization performed in the environment where it acts in order to fulfill its mission. Using an interdisciplinary approach grounded in economics, organizational theory and contract law, TCE theory explains why certain economic tasks are performed within the firm rather in the market. TCE see transaction as the basic unit of analysis, characterized by specificity, uncertainty and frequency, and focuses on specific decision: to make or to buy. TCE see both firm and the market as governance structures, that induces different costs and have differences competences [1]. The concept of TCE is associated to the work of Roland Coase and Oliver Williamson.

Roland Coase discussed the concept of transaction costs in his 1937 paper *The Nature of the Firm*. Coase used the term to predict when some economic activities will be performed by the firm and when will be performed on the market. It is Oliver E. Williamson who extended the research of transaction cost economics and developed the interdisciplinary approach of transaction cost economics theory, through the lens of the organizational theory and contract law.

As Williamson (1989, p. 136) [2] states" Transaction cost economics adopts a contractual approach to the study of economic organization....Transaction cost economics (1) is more microanalytic, (2) is more self-conscious about its behavioral assumptions, (3) introduces and develops the economic importance of asset specificity, (4) relies more on comparative institutional analysis, (5) regards the business firm as a governance structure rather than a production function, (6) places greater weight on the ex post institutions of contract, with special emphasis on private ordering, and (7) works out of a combined law, economics, and organization perspective. Friction, the economic counterpart for which is transaction costs, is pervasive in both physical and economic systems".

Transaction cost economics theory extended it application from commercial or labour contracts, to family relations and public policies.

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[1] Williamson, O. E. (2007). *Transaction cost economics: An introduction, economics discussion papers*. Institut für Weltwirtschaft, No. 2007-3
[2] Williamson, O. E. (1989). Transaction cost economics. In *Handbook of industrial organisations* (pp. 136–178). Elsevier Science Publishers B.V.

## Transparency

**Yue S. Ang**

Transparency, as used in science, business, engineering, humanities and more generally in a social relationship context implies openness, communication and accountability. Transparency also means acting or operating in such a way that it is easy for others to see what actions are performed. Practicing corporate social responsibility (CSR) through transparency is essential for its effective delivery. This practice could be conducted and promoted internally and externally.

A business promoting internal transparency practices CSR through informing its stakeholders (predominantly its employees) of its CSR core values. For example, implementing a recycling programme, promoting commuting to work using greener transportation, promoting healthy eating, a healthy work life-balance of employees and engaging accounting, auditing and reporting geared towards environmental sustainability [1] communicates the businesses values which are putting the environment and the well-being of employees at the centre. Internal transparency can be of two forms—an orientation towards environmental friendliness or towards the socio-economic wellbeing of employees and workers. A business promoting the socio-economic well-being of its employees and workers ensures that the needs of its workforce are met. A sustainable workforce should not be overworked or living an unhealthy lifestyle. A business meets the needs and well-being of its employees by setting up programmes such as life coaches, anxiety and stress management, relaxation workshops and promoting health through providing gym facilities. A healthy workforce boosts productivity. Transparent allocation of resources is paramount to maintaining a healthy and happy workforce. A business promoting environmental CSR informs its internal structure of switching to greener options. Transparency takes the form of carbon emissions reports and steps to reduce them. It also takes the form of reducing waste and promoting recycling. Encouraging employees and workers in engaging in a sustainable working environment through making ethical choices promotes positive and caring attitude. This is beneficial to a business creating a sustainable organisation and a sustainable workforce.

A business promoting external transparency practices CSR through engaging in coalition activities with other businesses and organisations by promoting both the interests of its shareholders and stakeholders [2]. Making a profit is still the main

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goal of a business however this is done ethically. Forming a coalition with other businesses and organisations solves some of the problems faced by many stakeholders such as diseases and unsustainable livelihoods. A business utilises its wealth as a resource which is coupled with the knowledge of the affected stakeholders. With the combination of wealth and knowledge, the coalition engages in the joint-solving of problems [3]. Transparency lies in the communication amongst the coalition which ensures that the social responsibility is shared [4]. Sustainability is preserved in the act of doing business based on which a sustainable business depends upon its sustainable stakeholders.

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[2] Global Business Coalition Health http://www.gbchealth.org/
[3] Global Business Coalition Health: Vision, mission and approach http://www.gbchealth.org/about-gbc/mission-and-approach/
[4] Ang, Y. S. (2014). 'Ethical Outsourcing and the Act of Acting Together', Empowering Organizations through Corporate Social Responsibility, IGI Publishing.

## Transparency International

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Transparency International (TI) is a non-profit, non-governmental organisation created in 1993 in Berlin by Peter Eigen, a former World Bank executive, which is devoted mainly to countering corruption. Based in Berlin, its Secretariat is the heart of the organization, fulfilling functions of leadership, coordination and support. It leads TI's international agenda and provides support, co-ordination and advice to the national chapters, which are independent organizations, registered in their own countries and affiliated with TI, that address corruption locally.

According to information extracted from the TI web page in February 2013 (www.transparency.org), TI is present in more than 100 countries through national chapters. Between 2007 and 2010, the Secretariat's budget grew from about €2.8 million to €20 million and the average number of employees increased from 35 to around 120 people [1]. These data serve as testimony of the rapid development of TI and of its significance in the fight against corruption.

TI has played an important role in leading governments to draft and sign the OECD Anti-bribery Convention (1997), the UN Convention against Corruption (UNCAC 2003) and the various regional conventions [1].

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Research is among the most significant contributions of TI [1]. Among its achievements in this area, the following stand out:

- The development of a set of complementary indices to measure perceived levels of corruption in different countries, namely the Corruption Perceptions Index, the Bribe Payers Index and the Global Corruption Barometer.
- The National Integrity Systems assessments, these correspond to analyses of the main institutions of selected countries' governance system in terms of corruption risks and contribution to fighting corruption.

[1] Norwegian Agency for Development Cooperation (NORAD). (2011). *Evaluation of Transparency International*. Oslo: NORAD.

## Two Tier Board

### Maria Aluchna

Two tier board is a term which refers to the dual board model and is viewed as the alternative structural solution to the one tier board. Two tier board stands for a corporate governance system where the management and supervisory functions are separated and fulfilled by two different groups—the management (executive) board and supervisory board, respectively. By definition the mandates of the two boards are kept separately. The supervisory board is appointed by the general shareholders at members' meetings and plays the function of protecting the shareholders' and stakeholders' rights. The management (executive) board is appointed by the supervisory board and is responsible for running the company daily operations. Two tier board functions in continental Europe (Germany, Austria, Denmark, Finland, Netherlands, Norway, Switzerland, Poland). Although the law allows a company to choose the board model it wishes to adopt in Italy, France and Spain, only a small fraction of about 10 % of companies adopt the dual model [1].

Two tier board is viewed as the corporate governance model which provides for more independence and objectivity in the evaluation of the executive work as all supervisory board directors are non executives. However, the business practice indicates that the supervisory board tends to be dominated by the majority shareholders' representatives which to large extend is the result of the ownership concentration identified in countries where the dual board function operates. Moreover, the experience of the German supervisory boards reveals significant involvement of employee representatives (50 % of board seats) and the presence of the bank representatives (about 10 % of board seats) [2]. In effect, the supervisory board very often shows low participation of independent directors and low levels of diversity. Despite the greater objectivity the supervisory board often faces the lack

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of sufficient information on executives' performance and requires the joint meeting with the management board. The practice of joint meetings and formation of board committees suggest a convergence of board practices of both corporate governance models.

[1] Mallin, C. (2007). *Corporate governance*. Oxford: Oxford University Press.
[2] Larcker D., Tayan B. (2011). *Corporate governance matters*. Australia: Pearson Education.