Corporate Governance

# Definition

... basically describes how a company is being governed

... it is a system of rules, practices and processes by which a company is directed and controlled

... Corporate Governance serve a company similar to how the Austrian Federal Constitution (German: Österreichische Bundesverfassung) serve its people

The company’s board of directors approved and periodically reviews the guidelines

... specify the rights and responsibilities of company stakeholders with particular emphasis on three groups

* Shareholders who own the company
* The board of directors who oversee Managers
* And management which handle the daily operations

It may also specify the rights of other stakeholders such as

* Employees
* Customers
* Creditors
* Suppliers

Key parties involved in corporate governance include stakeholders such as the board of directors, management and shareholders. External stakeholders such as creditors, auditors, customers, suppliers, government agencies, and the community at large also exert influence.

<https://www.oecd.org/daf/ca/principles-corporate-governance.htm>

*"The board is responsible for the successful perpetuation of the corporation. That responsibility cannot be relegated to management." - John G. Smale*

The OECD Principles of Corporate Governance (2004) describe the responsibilities of the board; some of these are summarized below:[3]

* Board members should be informed and act ethically and in good faith, with due diligence and care, in the best interest of the company and the shareholders.
* Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets.
* Oversee major acquisitions and divestitures.
* Select, compensate, monitor and replace key executives and oversee succession planning.
* Align key executive and board remuneration (pay) with the longer-term interests of the company and its shareholders.
* Ensure a formal and transparent board member nomination and election process.
* Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit.
* Ensure appropriate systems of internal control are established.
* Oversee the process of disclosure and communications.
* Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed.

# A word on the guidelines

The key function of corporate governance is the determination of how power is distributed amongst those groups. The following principles are (in most cases) established to determine this distribution

* **Rights and equitable treatment of shareholders**:[[18]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-18)[[19]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-19)[[20]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-20) Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.
* **Interests of other stakeholders**:[[21]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-21) Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.
* **Role and responsibilities of the board**:[[22]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-22)[[23]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-23) The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.
* **Integrity and ethical behavior**:[[24]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-24)[[25]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-25) Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
* **Disclosure and transparency**:[[26]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-26)[[27]](https://en.wikipedia.org/wiki/Corporate_governance#cite_note-27) Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

<http://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf>

# Corporate Governance Quotient - CGQ

A metric developed by Institutional Shareholder Services (ISS) that rates publicly traded companies in terms of the quality of their corporate governance. Each public company covered by the metric is assigned a rating based on a number of factors that are considered by the ISS model.

<http://www.investopedia.com/terms/c/corporate_governance_quotient.asp>

<http://www.issgovernance.com/governance-solutions/investment-tools-data/quickscore/>

# Models

Different models of corporate governance differ according to the variety of capitalism in which they are embedded. The Anglo-American model tends to emphasize the interests of shareholders. The coordinated model associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-orientated and network-orientated models of corporate governance

**Continental Europe / Two-tier board system (Aktiengesellschaft)**

Some European countries, including Germany, Austria, and the Netherlands, require a two-tiered Board of Directors as a means of improving corporate governance. In the two-tiered board, the Executive Board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors who represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions

<http://www.internationallawoffice.com/Newsletters/Company-Commercial/Hungary/Nagy-s-Trcsnyi/One-and-two-tier-corporate-governance-systems>

**Anglo-American model (U.S. and U.K.)**

The so-called "Anglo-American model" of corporate governance emphasizes the interests of shareholders. It relies on a single-tiered Board of Directors that is normally dominated by non-executive directors elected by shareholders. Because of this, it is also known as "the unitary system"

<https://implicity.wordpress.com/2009/09/15/the-anglo-american-model-of-corporate-governance-basic-overview/>

# Historic Trend

Corporate governance became a pressing issue following the 2002 introduction of the Sarbanes-Oxley Act in the U.S., which was ushered in to restore public confidence in companies and markets after accounting fraud bankrupted high-profile companies such as Enron and WorldCom.

Corporate Governance continues to be a hot topic today with the rising interest in corporate ethics, for example: one such issue is whether corporates should take responsibility beyond direct shareholder interests, to include the communities they serve and environmental issues.

<http://www.investopedia.com/terms/c/corporategovernance.asp>

# Example: Coca-Cola

The Board of Directors of The Coca-Cola Company has adopted the following guidelines in furtherance of its continuing efforts to enhance its corporate governance. The Board will review and amend these guidelines as it deems necessary and appropriate.

Coca-Cola

* Board Mission and Director Responsibilities
* Board Leadership
* Director Qualifications
* Director Term and Tenure
* Determination of Independence
* Committees of the Board
* Director Access to Officers, Employees and Information
* Director Orientation and Continuing Education
* Annual Chairman of the Board and Chief Executive Officer Performance Evaluation
* Management Succession
* **Annual Board Performance Evaluation**
* Director Compensation
* Board Interaction with Outside Interested Parties

**Annual Board Performance Evaluation:** The Board of Directors will conduct an annual self-evaluation to determine whether the Board and its Committees are functioning effectively. During the year, the Committee on Directors and Corporate Governance shall receive input on the Board's performance from Directors and, through its Chairman, will discuss the input with the full Board and oversee the full Board's review of its performance. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board or any of its Committees could improve.

Last updated: February 19, 2015

# Example: Microsoft

At the world's largest software company, we create social and economic impact wherever we do business. We are accountable to shareholders, customers, employees, business partners, and in meeting their expectations we are committed to operating responsibly and sustainably.

Microsoft

In a 7-Page Document, Microsoft defined the following:

* Role of the Board
* Board Composition and Selection (Independent Directors)
  + Board Size
  + Selection of Board Members
  + Board Membership Criteria
  + Board Composition (Mix of Management and Independent Directors)
  + Tenure
  + Election of Directors
  + Retirement Policy
  + Directors with significant job changes
  + Board Leadership
  + Other Boards and Committees
* Board Meetings (Involvement of Senior Management and Independent Advisors)
  + Board Meetings: Frequency
  + Board Meetings: Agenda
  + Advance Distributions of Materials
  + Access to Employees
  + Access to Independent Advisors
  + Compensation Consultant Independence
  + Executive Sessions of Independent Directors
* Communications with Shareholders
  + Engagement with Shareholders
  + Shareholder Communications to the Board
  + Attendance of Annual Shareholder Meeting
* Performance Evaluation (Succession Planning)
  + Annual CEO Evaluation
  + Development and Succession Planning
  + **Board of Committee Self-Evaluation**
* Compensation
  + Board Compensation Review
  + Director Stock Ownership
* Committees
  + Number and Type of Committees
  + Composition of Committees (Committee Chairs)
  + Committee Meetings and Agenda
* Miscellaneous
  + Director Orientation and Continuing Education
  + Review of Corporate Governance Guidelines

**Board and Committee Self-Evaluation**: The Governance and Nominating Committee conducts an annual evaluation of the performance of the Board and each of its members. It reports the results to the Board. The report includes an assessment of the Board’s compliance with the principles in these guidelines, and identification of areas in which the Board could improve its performance.

In addition, each committee conducts an annual performance evaluation and reports the results to the Board. Each committee’s report includes an assessment of the committee’s compliance with the principles in these guidelines and the committee’s charter, as well as identification of areas in which the committee could improve its performance.

Last update: July 1, 2015

<https://view.officeapps.live.com/op/view.aspx?src=http://www.microsoft.com/investor/corporategovernance/Corporate%20Governance%20Guidelines.docx>

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