

# CORPORATE GOVERNANCE FRAMEWORK FOR LISTED & NON- LISTED COMPANIES

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Worldwide"

# Corporate Governance Worldwide

- In the 20th century, modern corporations became one of the world's dominant institutions. Consequently the way they do business is now under close scrutiny



# Corporate Governance Worldwide

The proper governance of companies will become as crucial to the world economy as the proper governing of countries

*James Wolfenson, Past President of World Bank*

Good corporate governance is an essential element of sustainable economic growth in a market economy



# Corporate Governance Worldwide

## What is corporate governance?

Corporate governance refers to rules, regulations and best practices which ensure that boards and management secure the rights of shareholders, improve competitiveness, and enable access to capital in global markets

It should not be confused with management, which is concerned with day-to-day running of business



# Corporate Governance Worldwide

## Factors that contribute to good governance

- **accountability**
- **financial disclosure and transparency**
- **independence of the board**
- **shareholders' and other stakeholders' rights, equal treatment of shareholders**
- **ethical behavior and leadership**



# Why to urge for High Standard Corporate Governance Principles!

The McKinsey & Company Global Investor Opinion Survey 2002 reveals that Investors are willing to pay higher premiums for the shares of well-governed companies. These premiums are:

<b>North America &amp; Western Europe</b>	<b>:</b>	<b>12 – 14 %</b>
<b>Asia &amp; Latin America</b>	<b>:</b>	<b>20 - 25 %</b>
<b>Eastern Europe &amp; Africa</b>	<b>:</b>	<b>30 %</b>



# Why to urge for High Standard Corporate Governance Principles!

Corporate Governance Constituents

**Shareholders**

**(Individual & Institutional Investors)**

**Board of Directors**

**CEO**

**Regulator, Insurer, Media, Supplier, Auditing Companies,  
Investor, Creditor, Employee, Customer, Society**



# Corporate Governance Worldwide

## The Board

Board is the key corporate governance mechanism. This is the process by which management is monitored by (outside) directors on behalf of shareholders in order to align the interests of all sides



# Corporate Governance Worldwide

## The Board

Boards who realize the importance of human element, a chemistry that cannot be qualified, become effective and robust. Members of such boards behave in integrity, challenge each other's views and beliefs, but also respect each other

Welcome (my friend) aboard, but don't change a thing!



# Corporate Governance Worldwide

## Board committees to ensure good governance

### **Audit Committee**

It is responsible for monitoring and safeguarding auditing and non-audit services

### **Nomination Committee**

Makes board appointments and ensures the independence of board members

### **Compensation Committee**

Deals with executive remuneration and puts together remuneration packages



# Corporate Governance Worldwide

## McKinsey survey 2005

Impact of Sarbanes-Oxley on Boards in US and around the world;

- 70% of the directors want to know more about customers, competitors, suppliers market share, brand (performance & health of the company),
- 75% of directors want to spend more time on strategy & risk,
- 41% want to devote more attention to developing the talents and the skills of the people (including the CEO) who work for their company



# Corporate Governance Worldwide

## Shareholders as shareowners

The ownership and control structure of a corporation should be fully transparent to all shareholders under all circumstances



# Corporate Governance Worldwide

## Shareholders as shareowners

However, once the shareholders have invested, the capacity to exercise their rights may be abrogated by the management of the corporation and their power to influence the company can be minimal.

Therefore, the corporate governance framework aims to preserve the rights of, and minimize the risks to shareholders



# Corporate Governance Worldwide

## Shareholders as shareowners

According to the institutional investor five-country study of the Conference Board of the US (2000), institutional investors hold US \$24 trillion in financial assets in the world's top five markets. Eg:

- *TIAA-CREF (US): 259 billion \$*
- *CalPERS (US): 130 billion \$*
- *China: 1.6 trillion \$ (expected in 2010)*

The total assets of all private pension funds in OECD countries are US \$8985.4 billion (2001 statistics). Of this, 71 per cent (\$6342.2 billion) are accounted for by the US and UK combined.



# Corporate Governance Worldwide

- Recent corporate scandals and failures like Enron, WorldCom in USA, Parmalat in Italy , Ahold in the Netherlands, and Yanguangxia in China have accentuated the importance of good governance practices



# Corporate Governance Worldwide

The decline in public trust has to be restored. Companies and institutions cannot afford to have their reputations tarnished by inadequate oversight and unethical governance, nor can national economies continue to suffer from laxity and fraud in corporate activities



# Regulatory Measures Worldwide

## Sarbanes-Oxley in USA

Collapse of Enron, WorldCom and the other corporate scandals has led to the issuance of Sarbanes-Oxley Act in July 2002, the most significant piece of legislation since the Securities Act of 1934 in U.S. Any company (including foreign companies listed in the U.S.) registered with the U.S. Securities and Exchange Commission (SEC) is subject to Sarbanes-Oxley Act.



# Regulatory Measures Worldwide

## Sarbanes-Oxley in USA

The provisions of the act, in general, include:

- Establishment of a Public Company Accounting Oversight Board
- Composition of audit committees including the independence of members and their responsibility for appointing auditors
- Prohibition of personal loans to executives
- Banning auditors from providing non-audit services
- Forfeiture of directors' bonuses based on misleading accounts
- Bringing responsibility to Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) certify the accuracy of the financial and other information in the reports of the company
- Penalties for misleading auditors
- Protecting “*whistleblowers*”



# Company Law and Corporate Governance in the EU

The aims of the Action Plan adopted in May 2003, on “Modernizing Company Law and Enhancing Corporate Governance in the EU, are;

- Strengthening shareholder rights,
- Reinforcing protection for employees and creditors
- Increasing the efficiency and competitiveness of business



# European Corporate Governance Forum

The European Commission has set up a European Corporate Governance Forum, in October 2004 to examine best practices in Member States with a view to enhancing the convergence of national corporate governance codes and providing advice to the Commission. The Forum comprises fifteen senior experts from various professional backgrounds (issuers, investors, academics, regulators, auditors, etc.) whose experience and knowledge of corporate governance are widely recognized at European level.



# European Corporate Governance Forum

Priorities of the Forum;

- Shareholder's rights
- Application of Comply-Explain Principles in Europe
- Independence of Directors
- Internal Control
- Update other Commission initiatives such as;
  - 2<sup>nd</sup>, 4<sup>th</sup>, 7<sup>th</sup> & 8<sup>th</sup> Company Law Directives
  - Establishment of the Advisory Group on Corporate Governance and Company Law



# Driving Forces Behind Corporate Governance

The major driving forces behind the evolving role of corporate governance worldwide are;

- Privatization,
- Listing requirements
- Company ratings
- Merger & Acquisitions as corporate control mechanisms
- The aging population
- Globalization

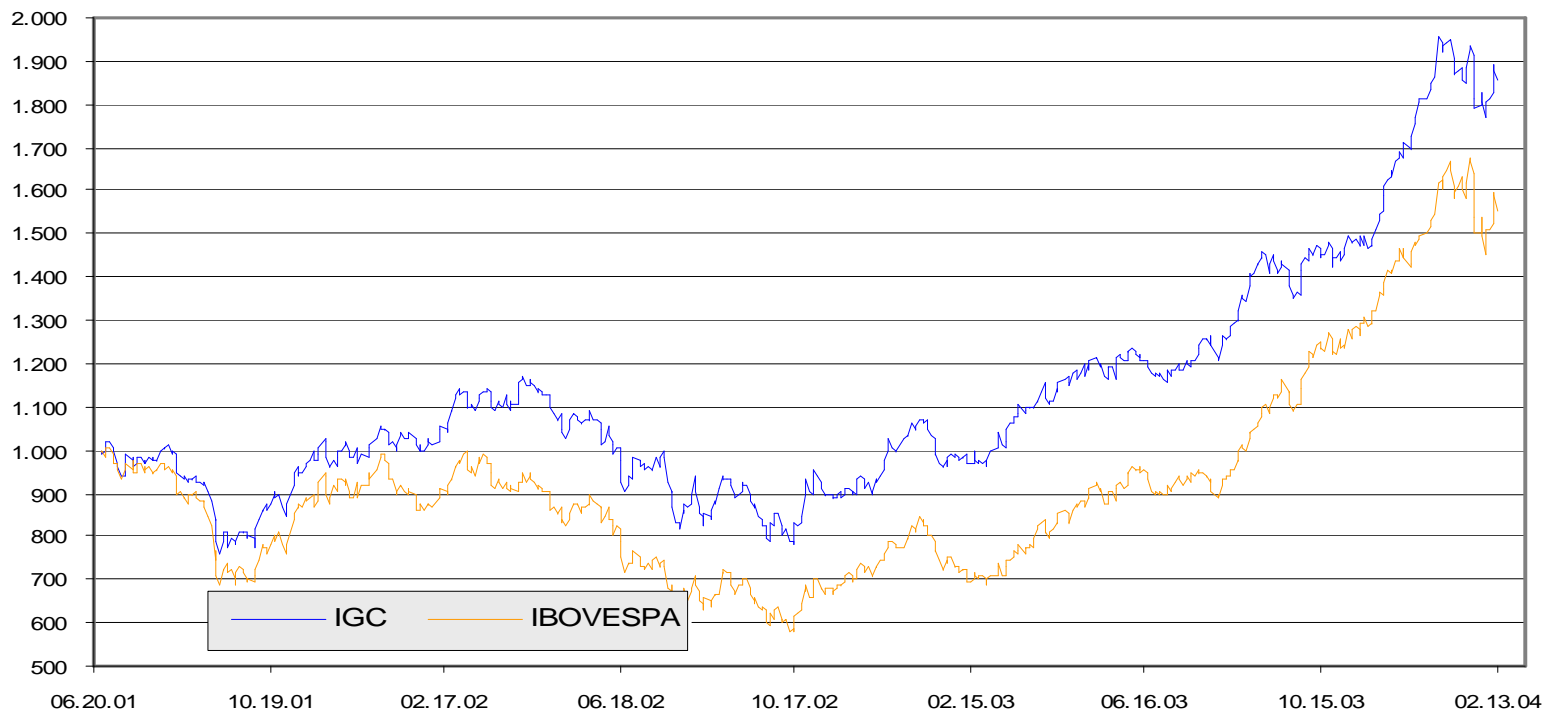


# Listing Requirements

- New York Stock Exchange
- Nasdaq
- Hong Kong Stock Exchange
- London
- Brazil– Bovespa → Novo Mercado
- Borsa Italiana → Star
- FEAS (Federation of Euro Asia Stock Exchanges)



# IGC – IBOVESPA 26/6/2001 – 16/2/2004



# Borsa Italiana, Star-1

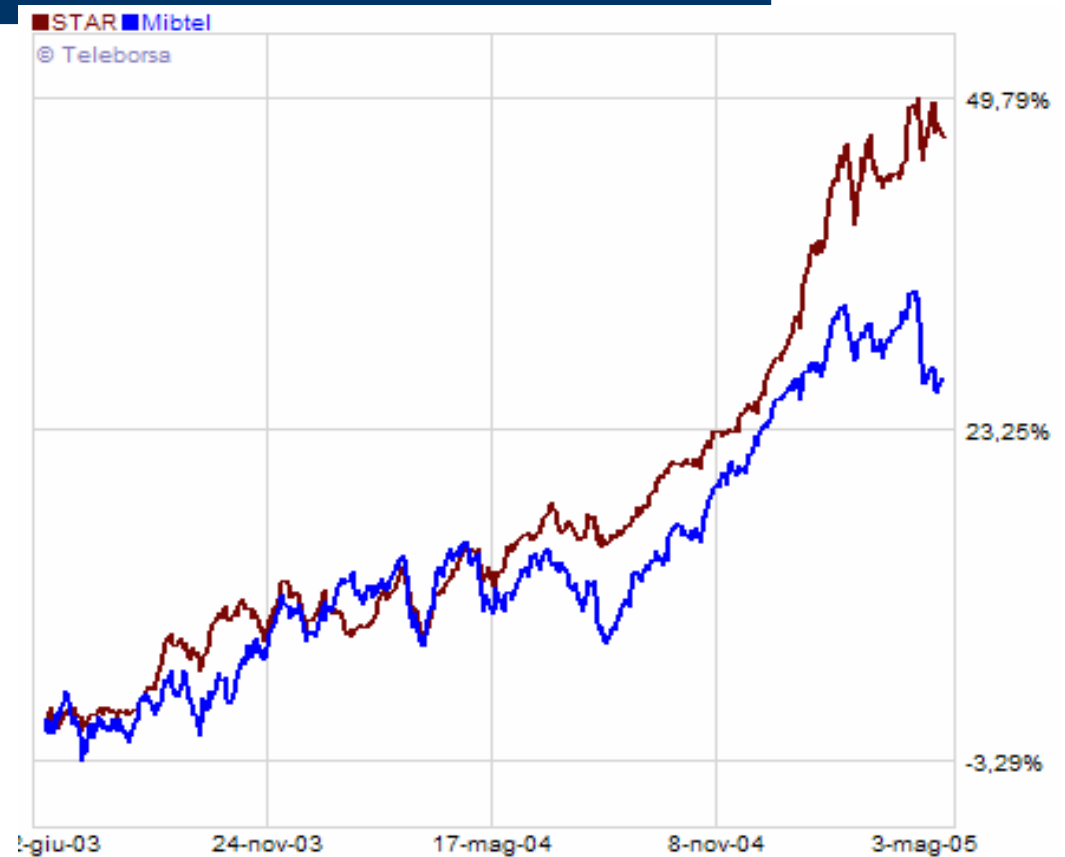
BORSA ITALIANA - “STAR” is another example of stock market segments that have decided to adhere to higher corporate governance standards. Created by Borsa Italiana in April 2001, STAR, an Italian acronym for Segmento Titoli con Alti Requisiti” (High Standard Mid Cap Market), is the segment of the Electronic Equity Market (Mercato Telematico Azionario – MTA) reserved for high-quality small- and medium-sized companies with a market capitalization less than 800 million euros.

Performed better than other comparable indices in Europe (in 2000: + 23 per cent better than the London FTSE Small Cap, +17 per cent more than the Frankfurt SMAX)



# STAR Index performance: overperformance vs Mibtel

- STAR constituents as of today:
  - 45 listed companies
- Total STAR market capitalisation (31/03/05):
  - Total: € 13.9 bn
  - Average: € 308 m
- Performance:
  - +50% from Jun '03
  - Overperformance vs Mibtel: + 27%



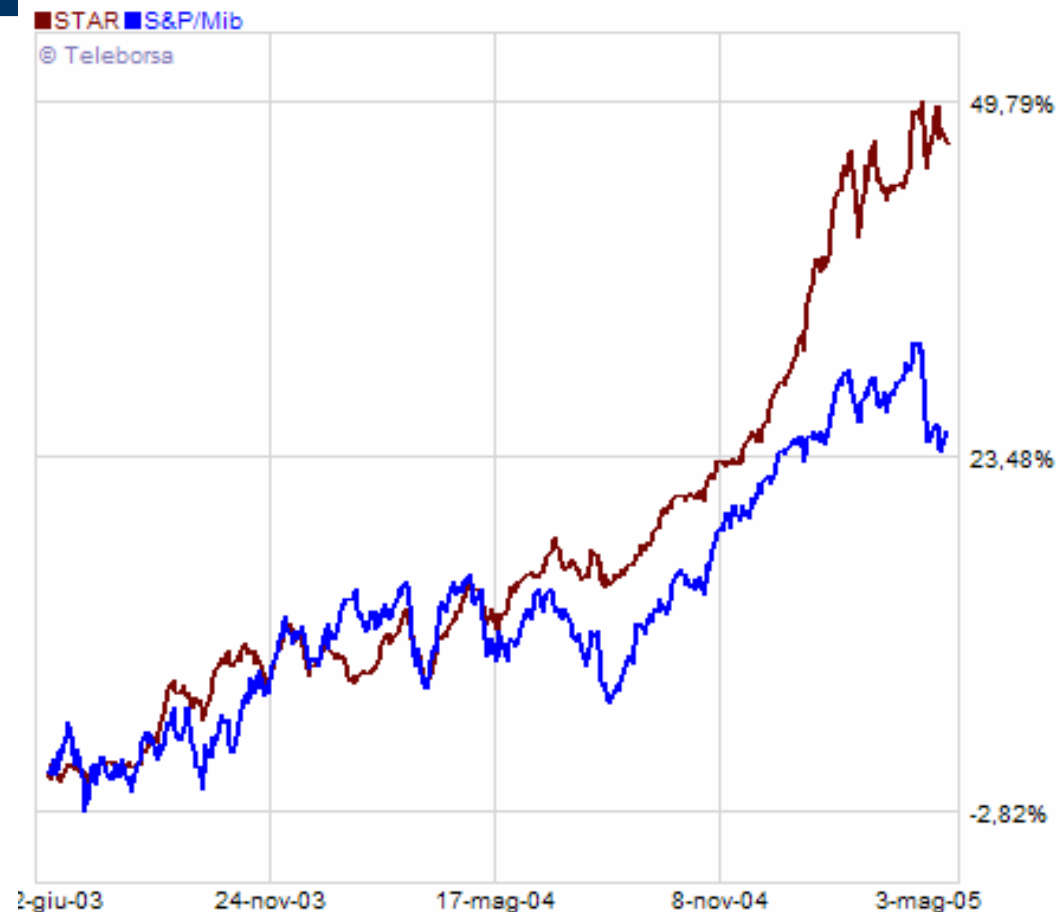
Source: Borsa Italiana

Chart update: 04/05/2005



# STAR Index performance: overperformance vs S&P/Mib

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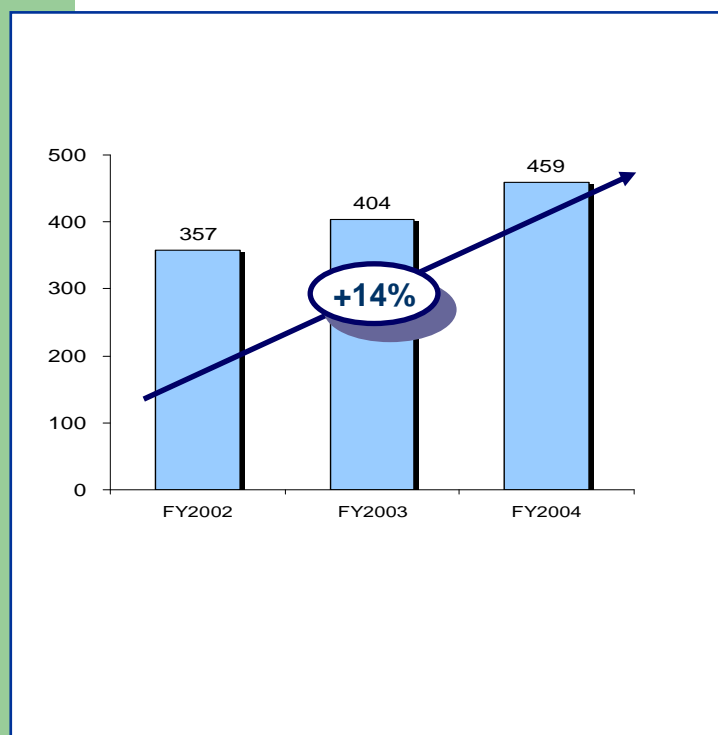


Source: Borsa Italiana

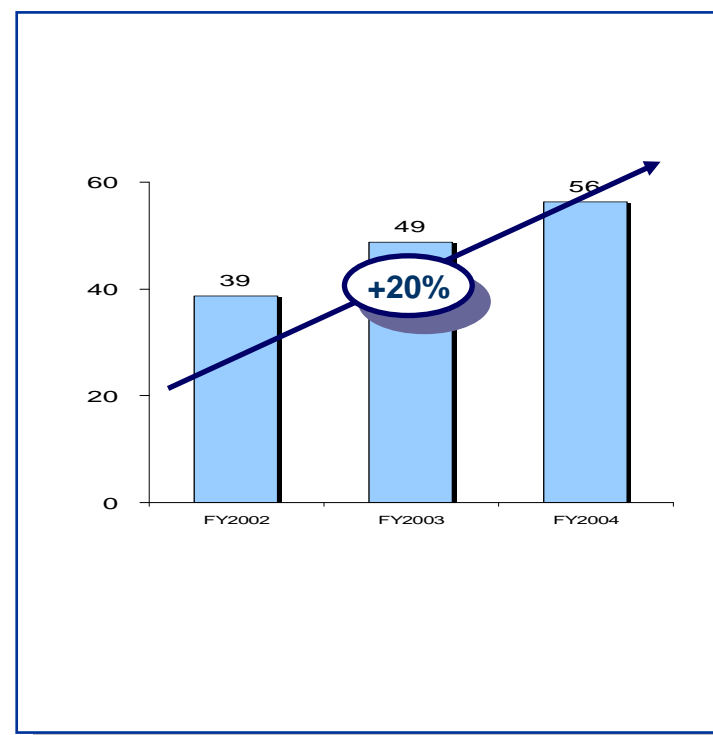
Chart update: 04/05/2005

# STAR COMPANIES: STRONG GROWTH IN FINANCIALS

## SALES GROWTH (EUR ML)



## EBITDA GROWTH (EUR ML)



- Source: Borsa Italiana

# Federation of Euro-Asian Stock Exchanges



# Future Prospects for Corporate Governance

- Convergence versus Divergence,
- Principles rather than rules
- Cost of regulation
- Judicial Enforcement
- Market Forces (civil enforcement)



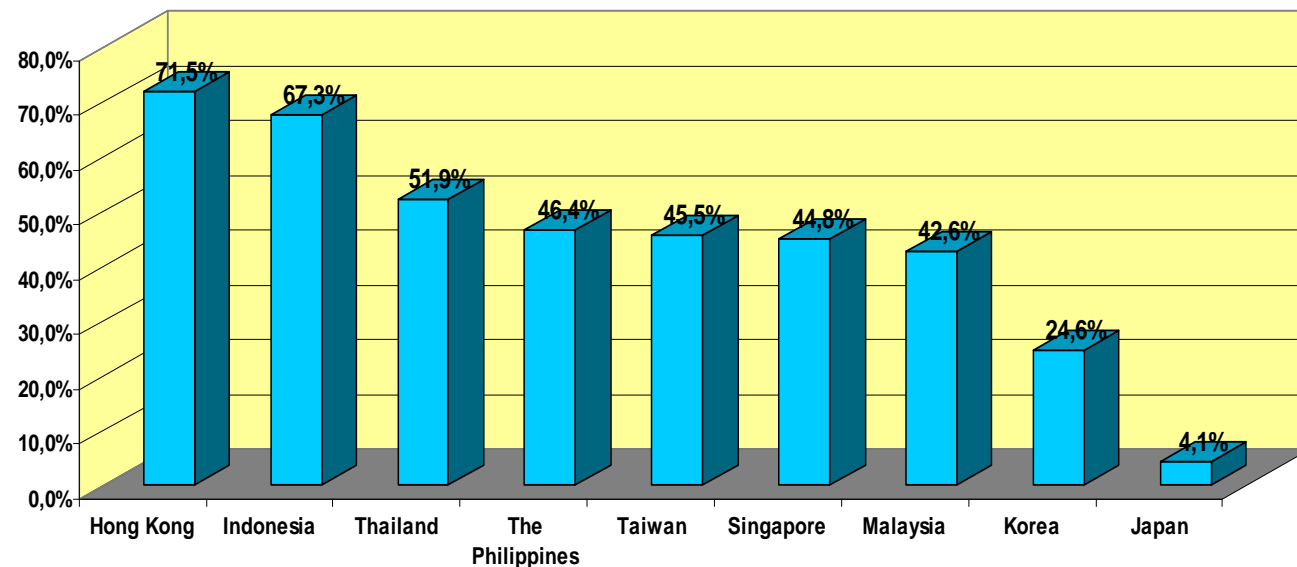
# Corporate Governance of Non-listed companies

- The gap between corporate governance practices of the listed and non-listed companies
- Non-listed companies also have impact on the economy
- Public companies have business relations with their private counterparts.
- Besides today's private companies can be the public companies of tomorrow and change in culture, policy and structure cannot be realized overnight



# Corporate Governance Worldwide

Family-owned Companies in the East Asia



Source: Stijin Claessens, Simeon Djankov, Larry H.P. Lang, "Who controls East Asian Corporations", Policy Research Working Paper, The World Bank, Şubat 1999



# Corporate Governance of Non-listed companies – OECD & ICC Roundtables

OECD organized a meeting on the corporate governance of non-listed companies in Istanbul in April 2005. ICC also held a roundtable on how to improve corporate governance of family-owned companies.

In the OECD meeting issues such as;

- How is professional management monitored?
- What are the transparency requirements of NLCs?
- Access to capital and implications for corporate governance?
- What are different ownership & control structures of NLCs? are discussed.



# Corporate Governance Worldwide- Enforcement

But how companies conform to these principles and put them into practice is as important as their acceptance. Good corporate governance practices are not merely a box-ticking exercise to comply with a form; they are also the substance – Enforcement is the critical issue-

