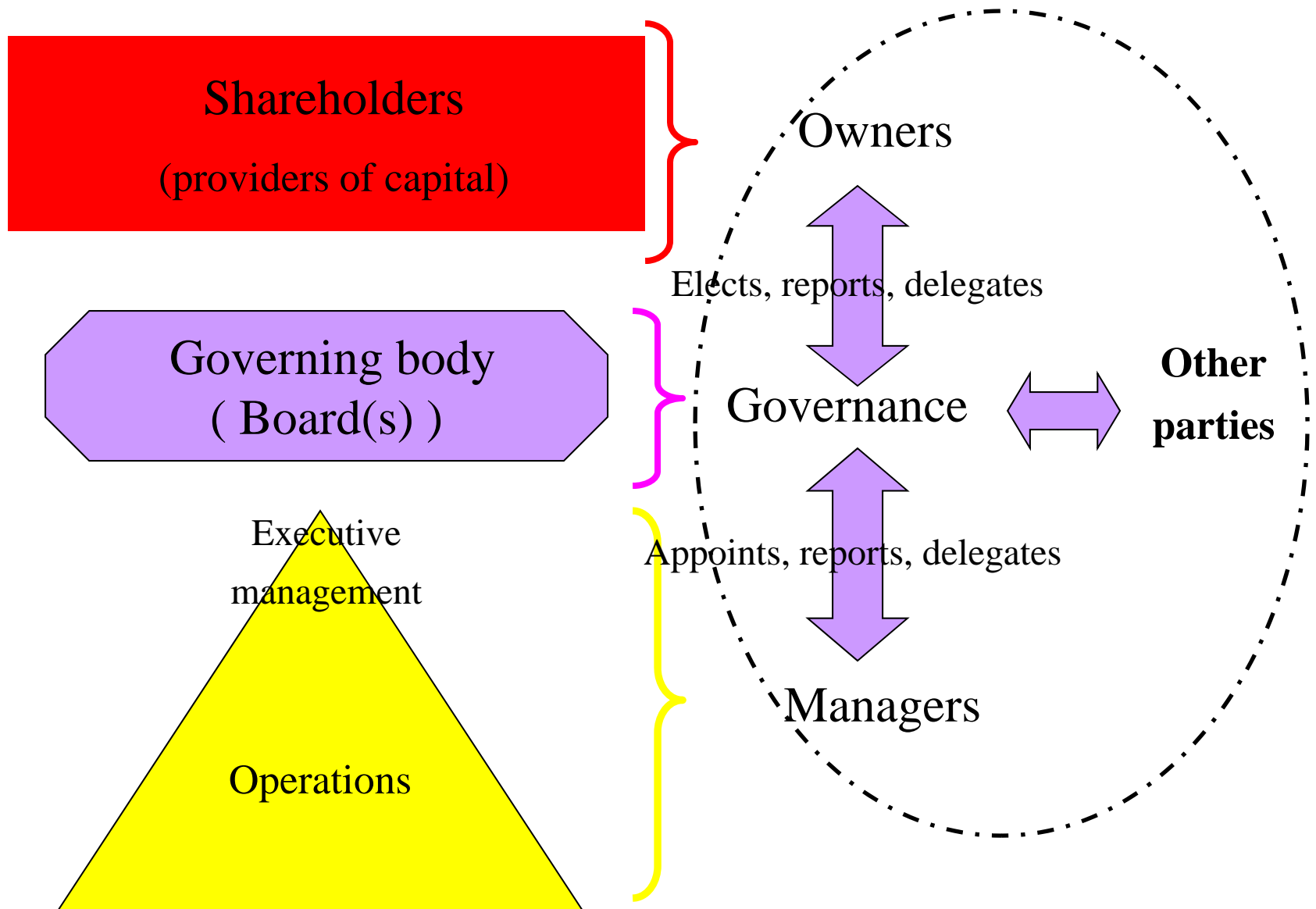


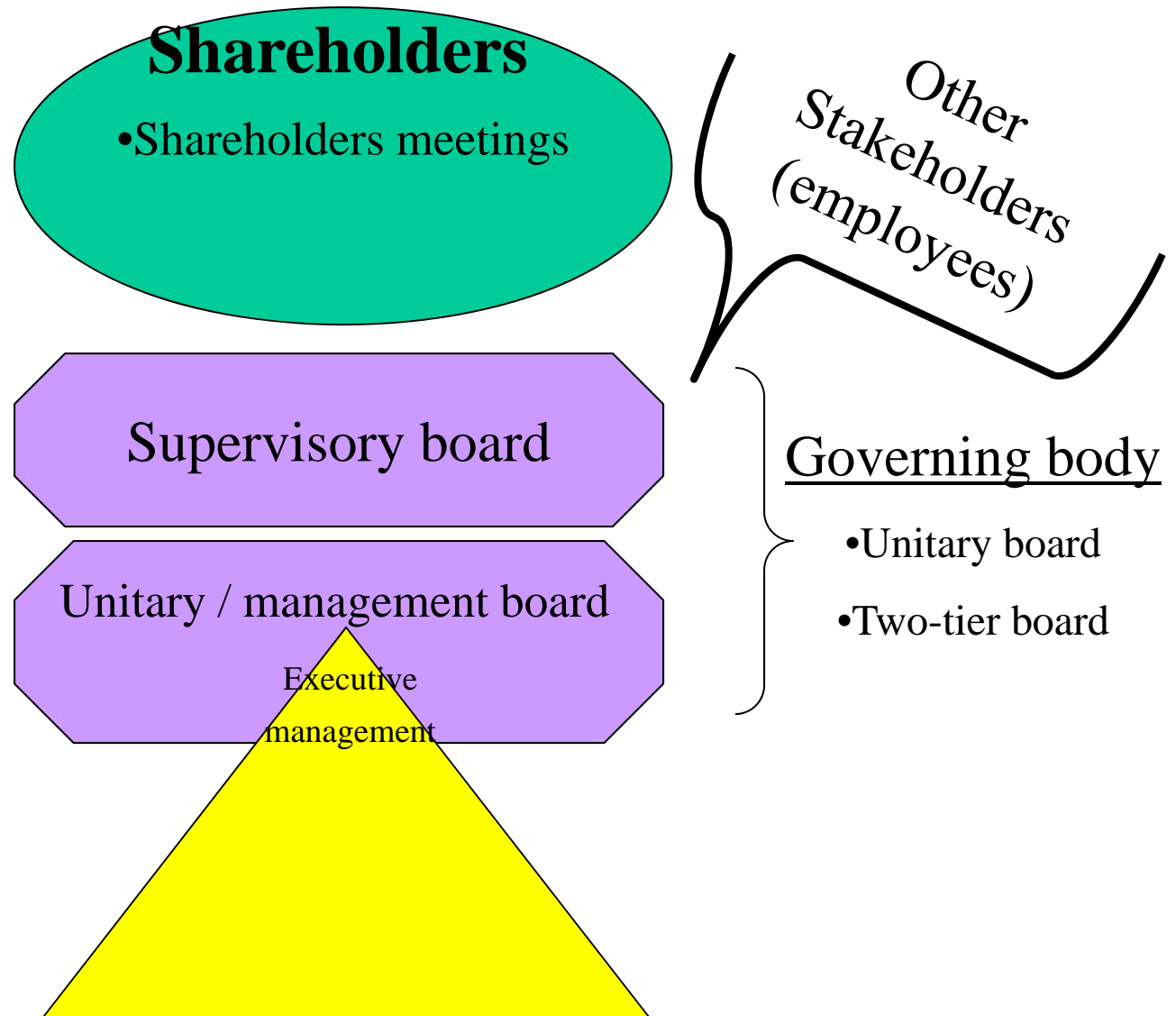
Corporate governance

A comparison between the US and the EU

What is corporate governance ?



Roles and prerogatives of the key players



Factors shaping corporate governance

- Cultural and historical factors
- Control and shareholding structures
 - Highly dispersed / fairly concentrated
 - role of shareholders
- Economic model
 - Consensus driven or market driven
 - role of financial and markets forces
- Legal model
 - Role and influence of various stakeholders
 - Primacy of shareholders' interest
 - Primacy of the company's interest
- External or exceptional factors
 - European integration and convergence
 - Recent scandals (Enron, WorldCom etc.)

Influence of economic and legal models on corporate governance

Anglo-Saxon

US - UK

- Market oriented
- Competition driven “ winner take all”
- More developed Financial Markets
- Shorter term strategy
- Greater reliance on equity
- Shareholder primacy
- No employee involvement
- Dispersed shareholding structure
- Strong managers weak owners

Continental/Rhineland

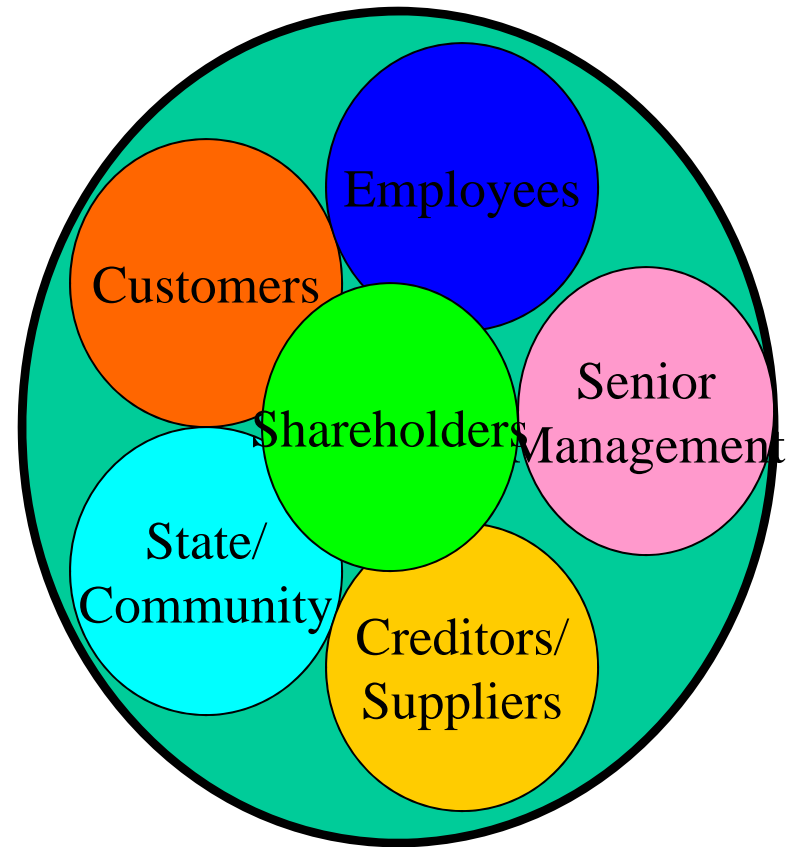
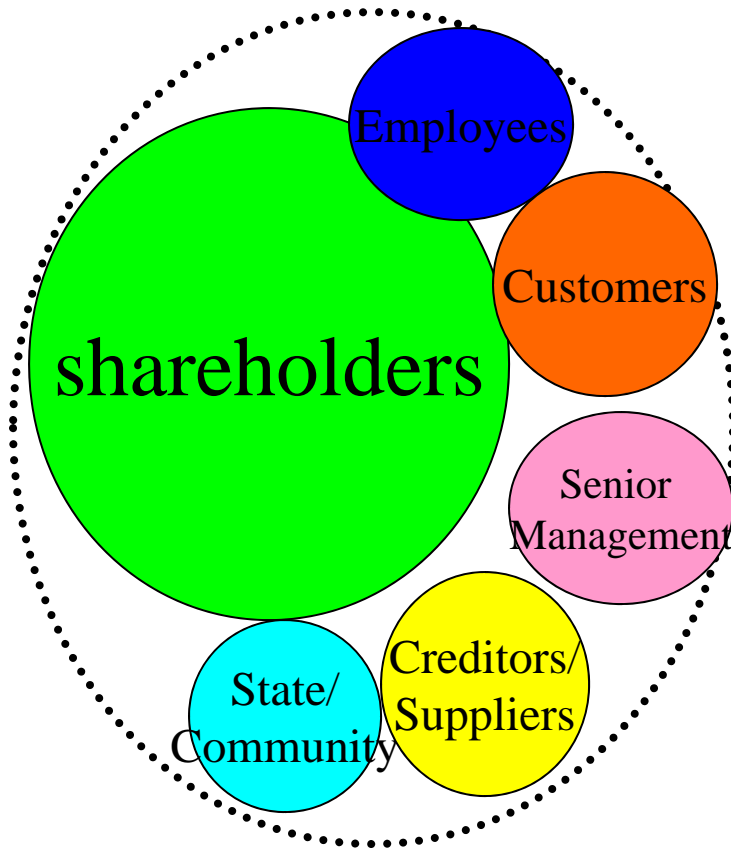
Continental Europe

- Bank, network oriented
- Consensus driven
- Less developed Financial markets
- Longer term strategy
- Greater reliance on debt
- Stakeholders/ company focus
- Co-determination/ worker councils
- Concentrated ownership & control
- Strong blockholders
weak “ dispersed owners”

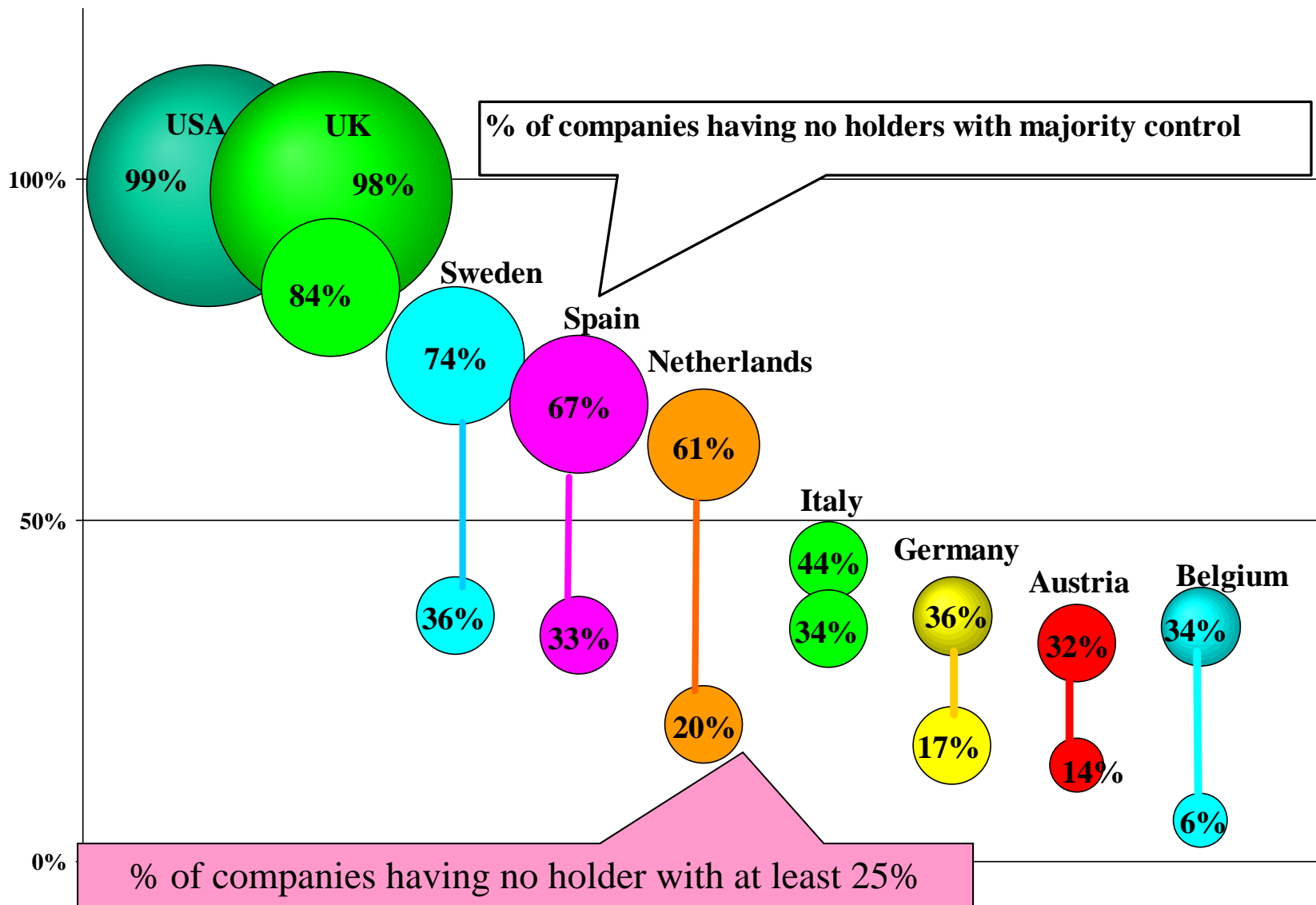
Whose interests is the board looking after?

The shareholder's interest or

The Company's interest



Ownership and control patterns



Separation of ownership and voting power

Voting power

Dispersed

Concentrated

Majority of companies

US - UK

Management control is likely
“strong managers weak owners”

US :Management thru proxy voting

Majority of companies

Continental Europe:
Devices overriding one share one vote
Other devices separating ownership and control

Dispersed

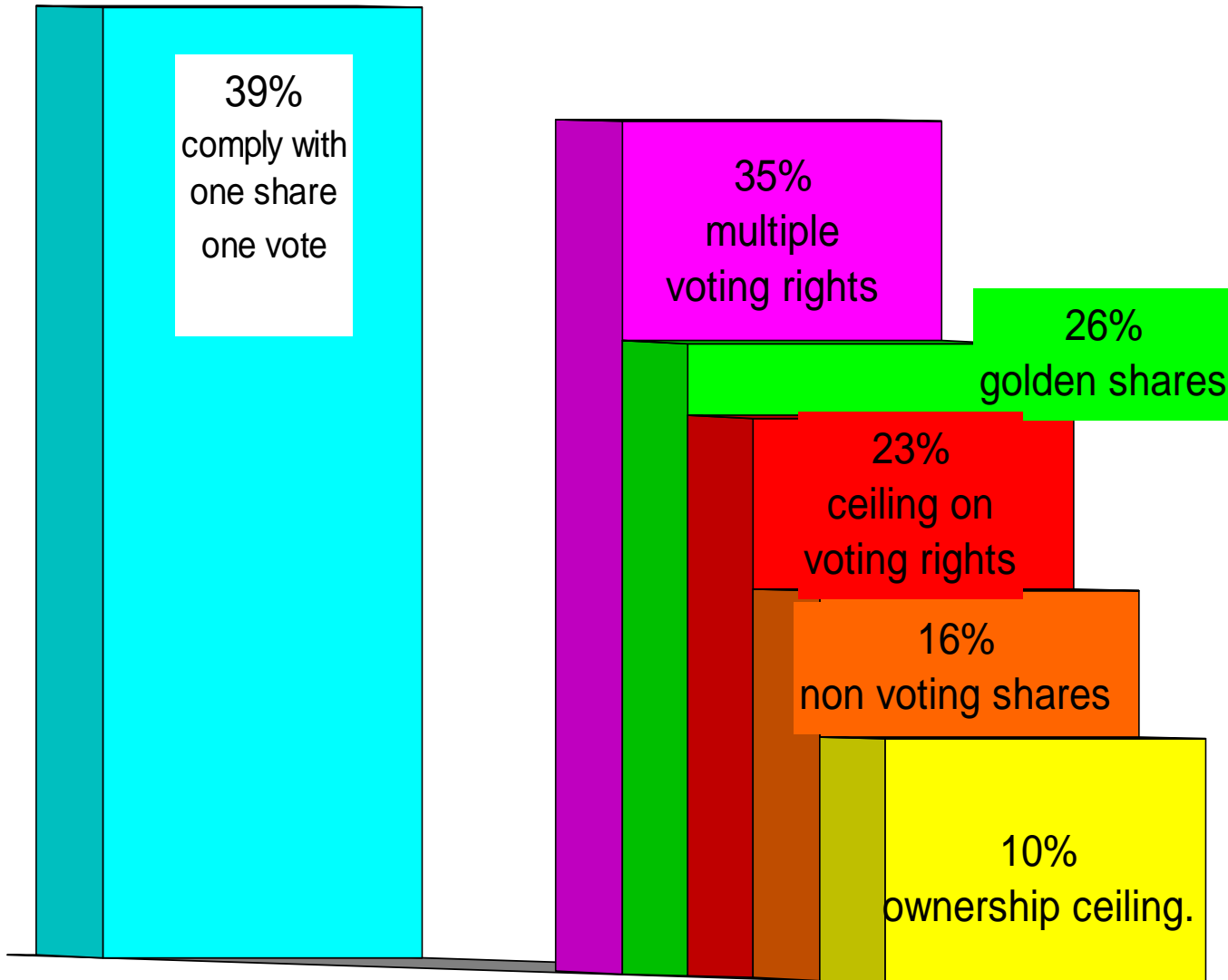
Concentrated

•Companies in countries that allow voting right restrictions (voting caps of 5%)

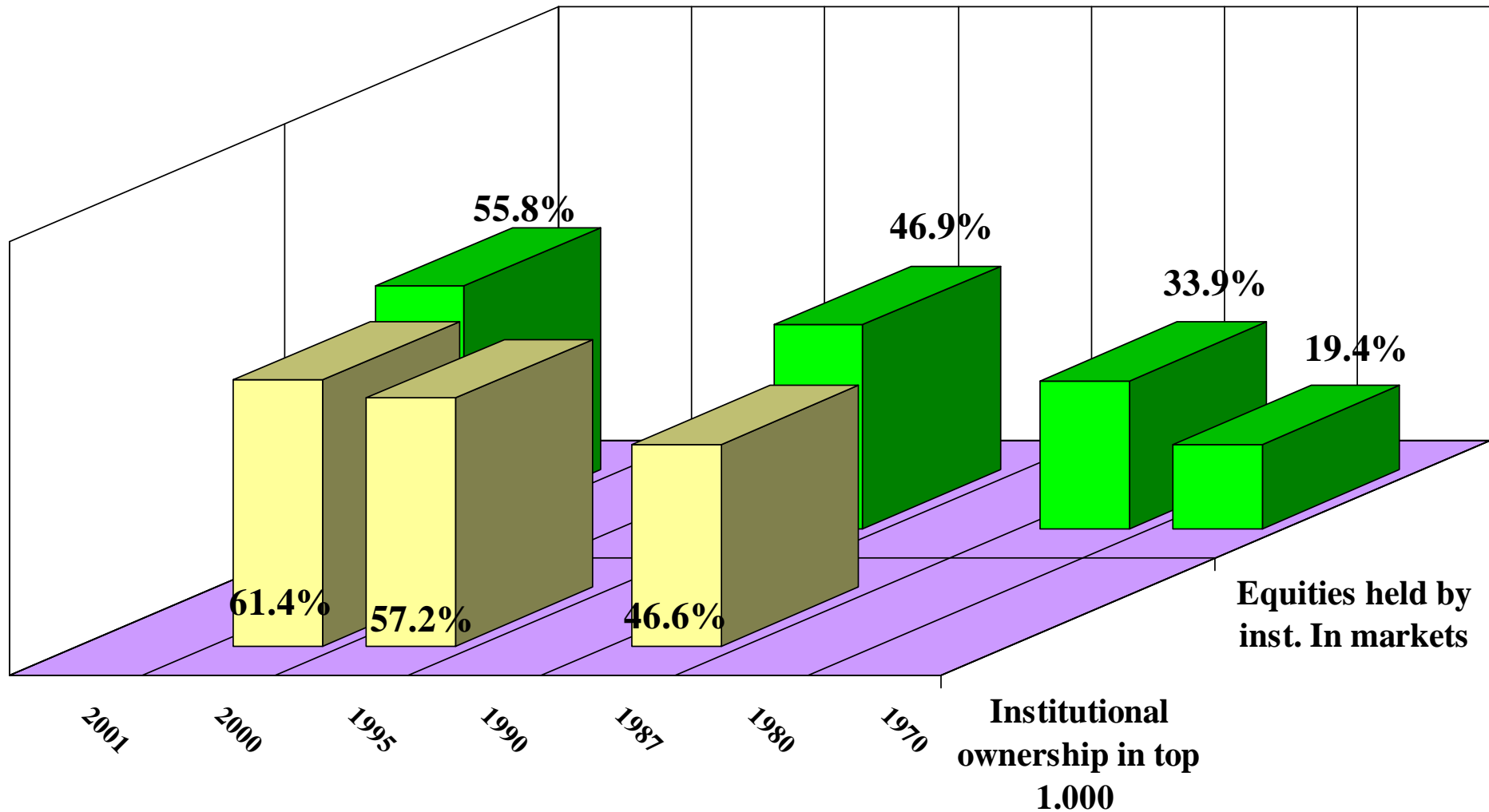
•Continental Europe
•US and the UK

Ownership

One share one vote restrictions in Europe



The rise of institutional ownership in the US



Role of the governing body

- Promotes and safeguards the interests of the shareholders /the company and balances the various interests
- Oversees and monitors of all critical functions and exerts full control over the company's affairs
- Interacts with shareholders and senior management
- Organizes the functioning of said governing body
 - Information flow – meeting's agendas & schedules
- It appoints, removes management and sets its compensation
- It determines the strategic direction of the company
 - capital allocation, lines of business, long range financial goals

Organizational structures

Unitary structure

Board of directors

- Executive &
- non-executive members

committees

Executive committee

Two-tier structure

Supervisory board

- only non-executive members

committees

Management board

- Executive members only

“Quasi Two-tier structure”

Other board

(board of auditors)

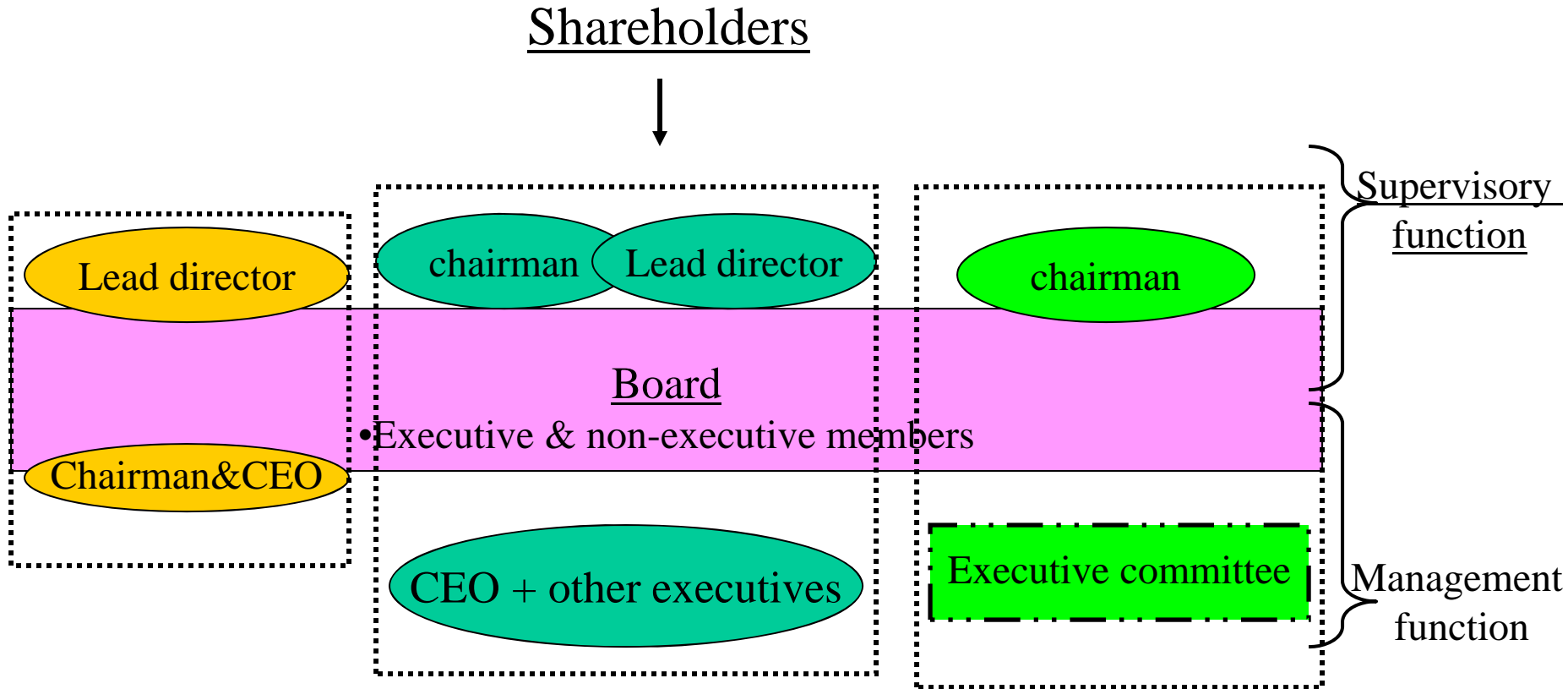
Board of directors

- Executive &
- non-executive members

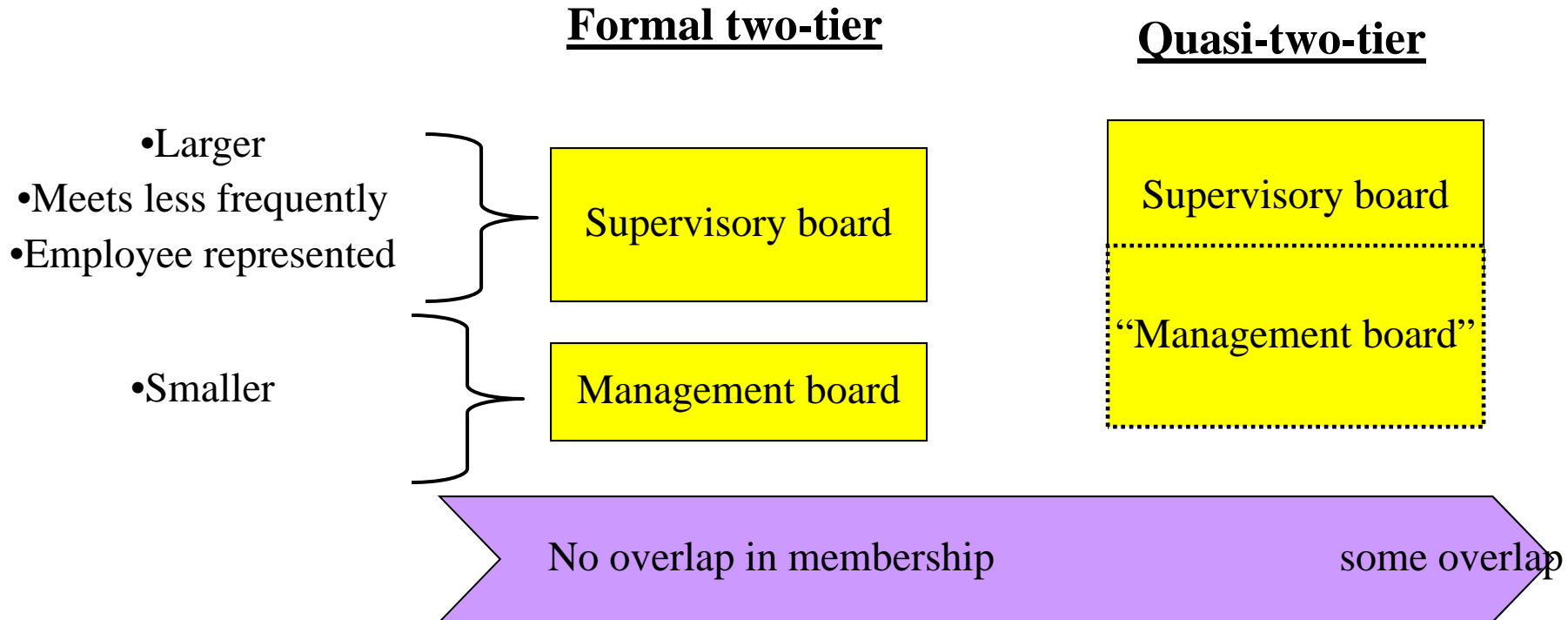
committees

Managing Director

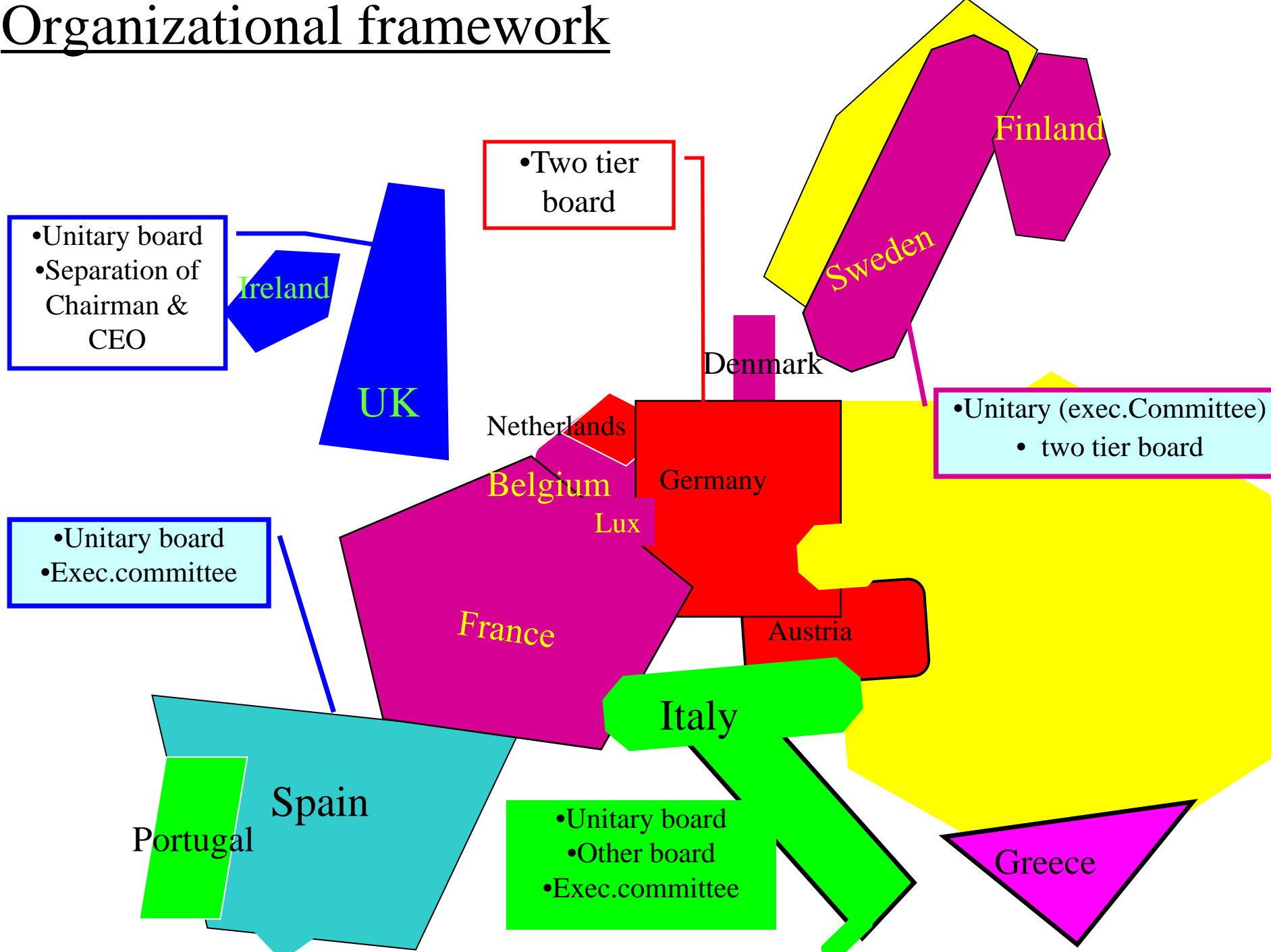
Unitary governance model: variations



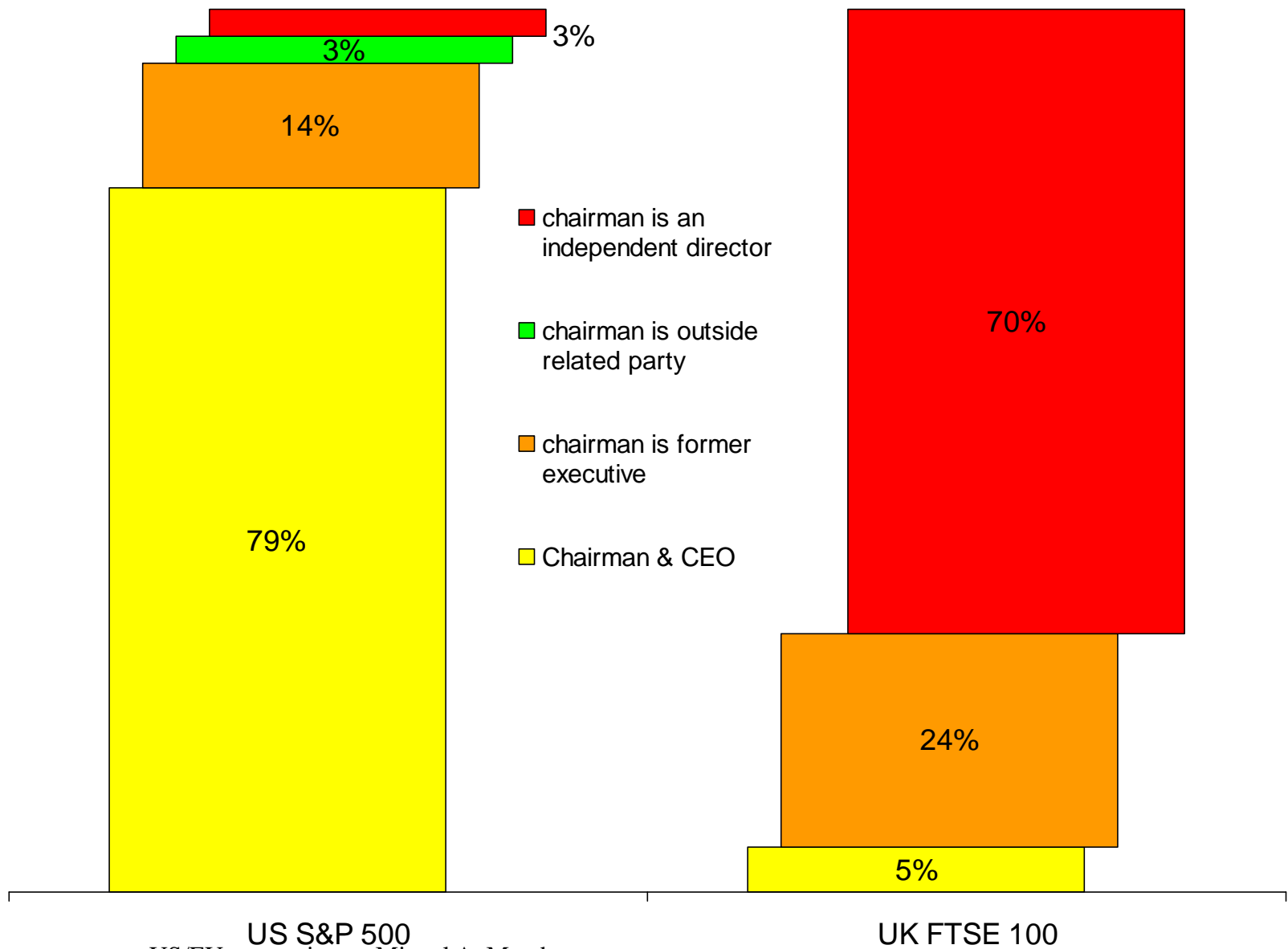
Two-tier structure details



Organizational framework



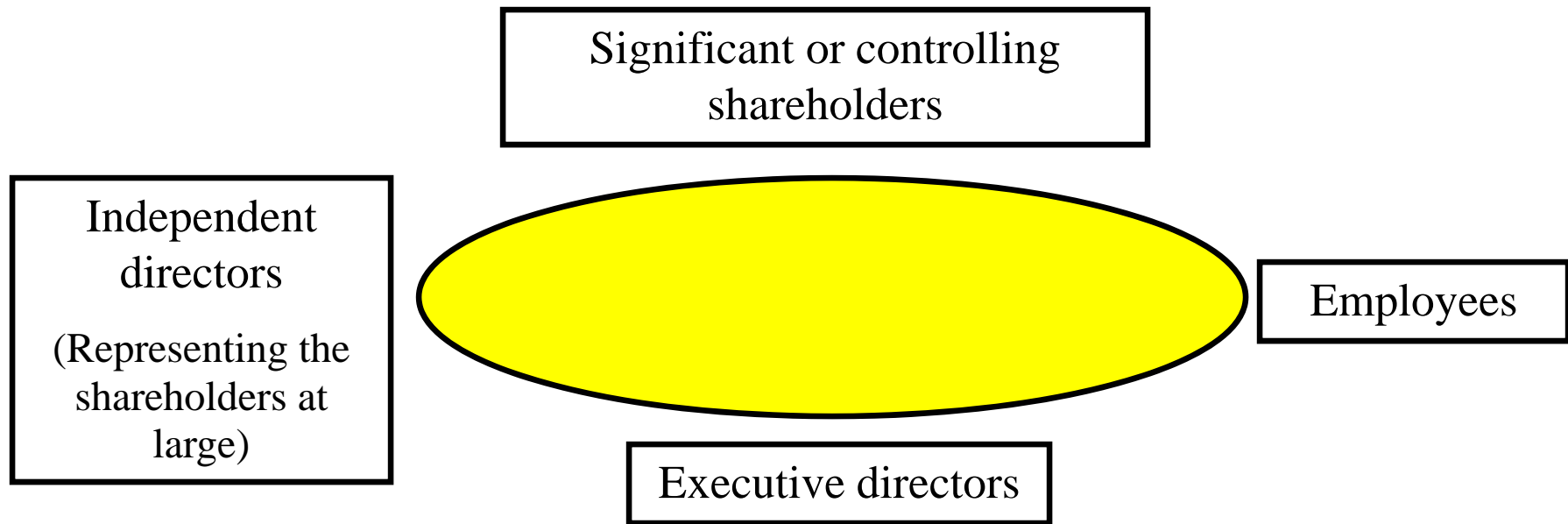
Concentration of power US vs UK



US S&P 500

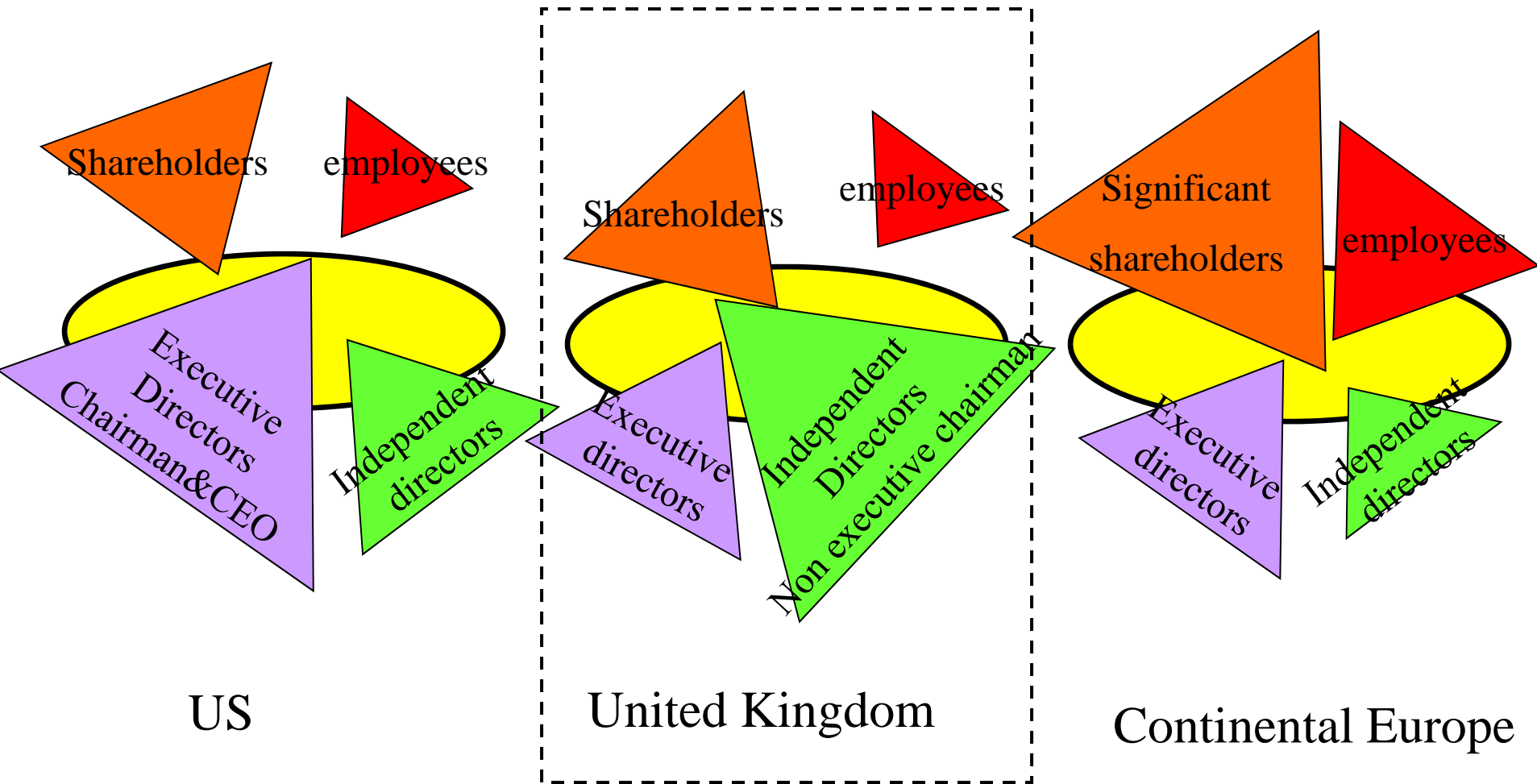
UK FTSE 100

Board representation: the actors

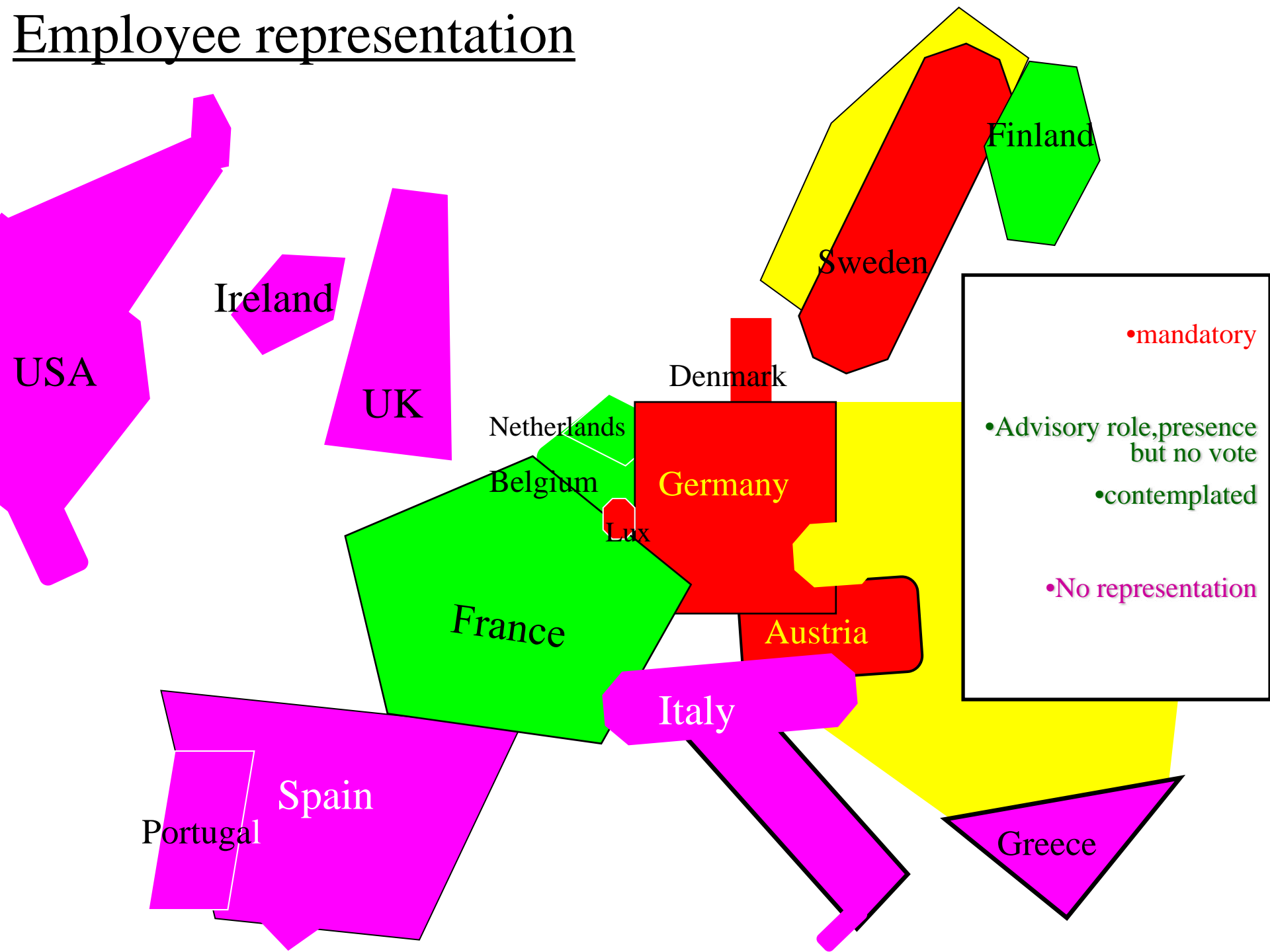


Board representation: the “shakers and movers”

(Weight and influence of different stakeholders on the board)



Employee representation



Shareholders representation:

who nominates directors?

- US / UK => board driven process
 - » Non executive chairman
 - » Chairman & CEO
 - » Nominating committee
- Continental Europe => shareholders and ownership driven process
 - » Shareholders committees
 - » Controlling or significant shareholders

Sources of Chairman/CEO's power

- Knowledge of company's affairs
- Presiding over board meeting
 - Setting the agenda
 - Deciding what information directors receive
 - Leading board discussions
- Selecting other board members
- Acting as spokesman for the company
- Interacting with shareholders
- Control of the purse

Board committees and alternative governing organs

Audit committee

Remuneration committee

- Board of auditors
- Dual auditorship
- Internal auditor

Supervisory

Unitary board

Executive committee

Nominating committee

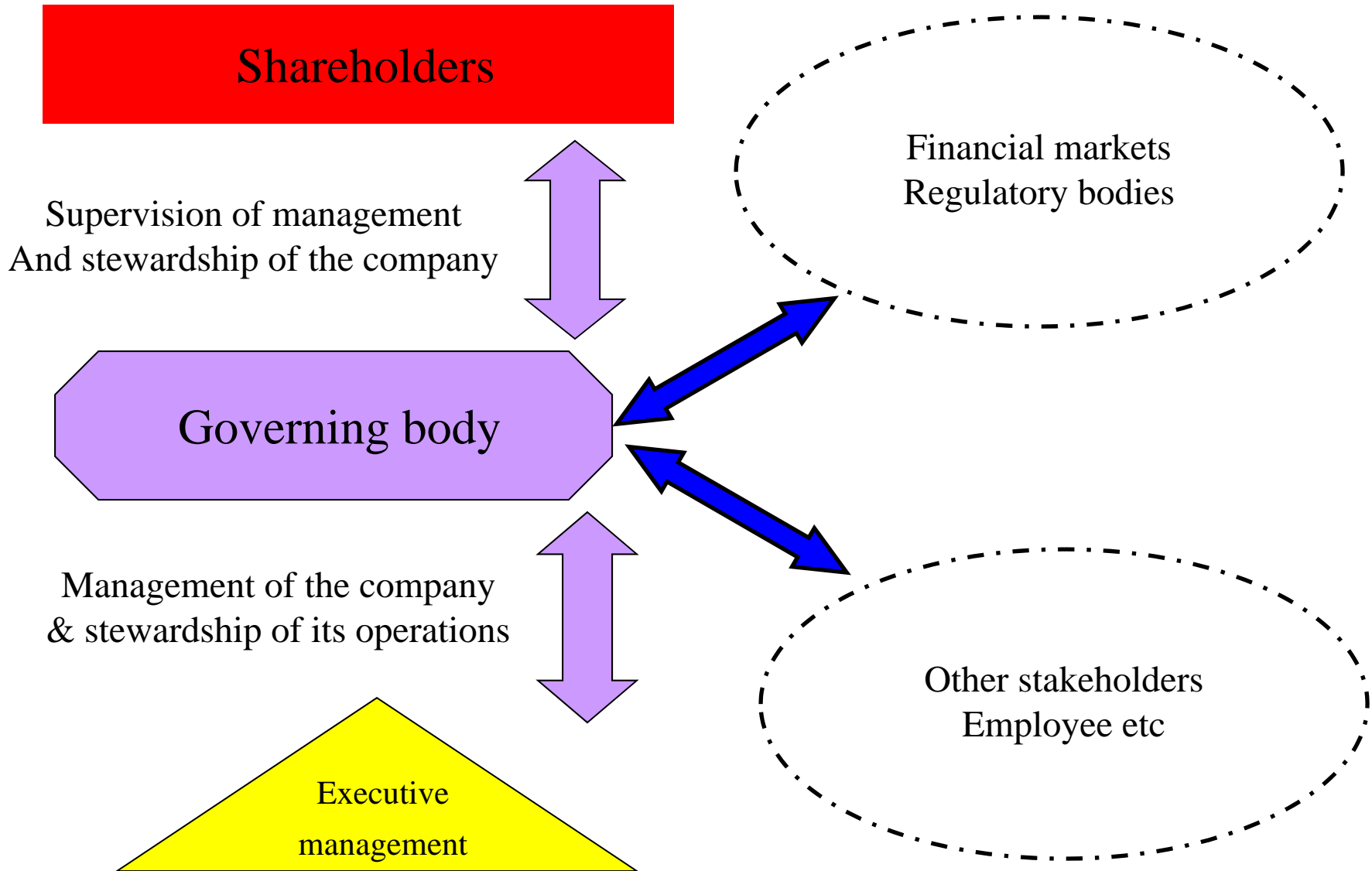
Governance committee

- Proportional representation
- Shareholder's committee
- Controlling shareholder election list

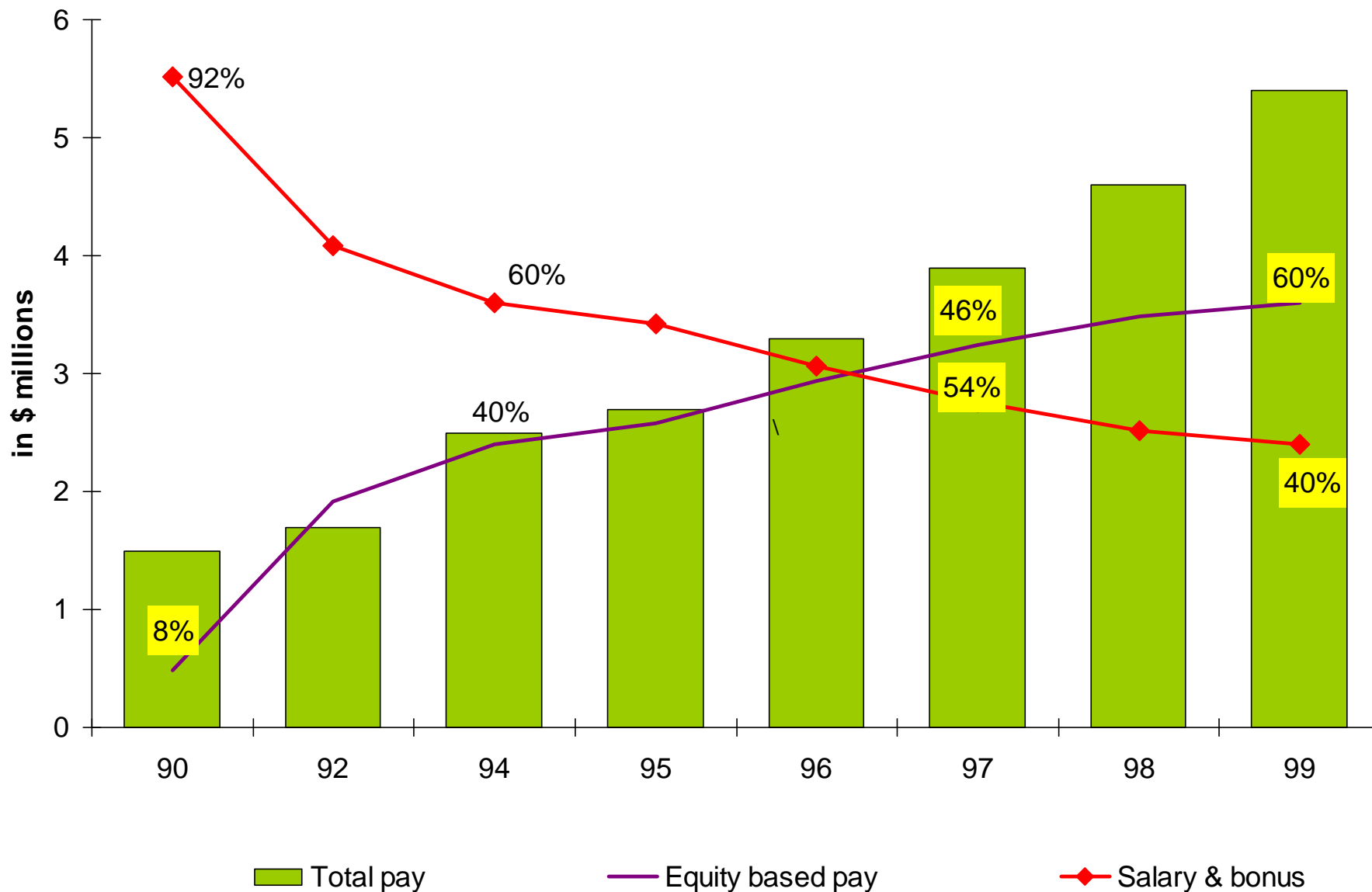
Independence impairments

- Former executive appointed director
- CEO is also chairman of the board
- Supplier, advisor, partner of the company also director
- Represents or has ties to a shareholder
- Has served on the board more than 10 years
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- Has close family ties with any of the company's advisors, directors, or senior executives

Accountability



Level and mix of CEO compensation 90-99



Key differences in the governance models

European model(s)

- Greater emphasis on check and balances
- Sharper distinction between oversight and management functions
- Governing body as a check and counterweight to executive power

American model

- Greater emphasis on unfettered leadership
- Watered down distinction and emphasis on managing the corporation
- Governing body “manages” the corporation