

Corporate Governance

Professor George Serafeim



HARVARD | BUSINESS | SCHOOL

The Value of Corporate Governance



The Value of Corporate Governance



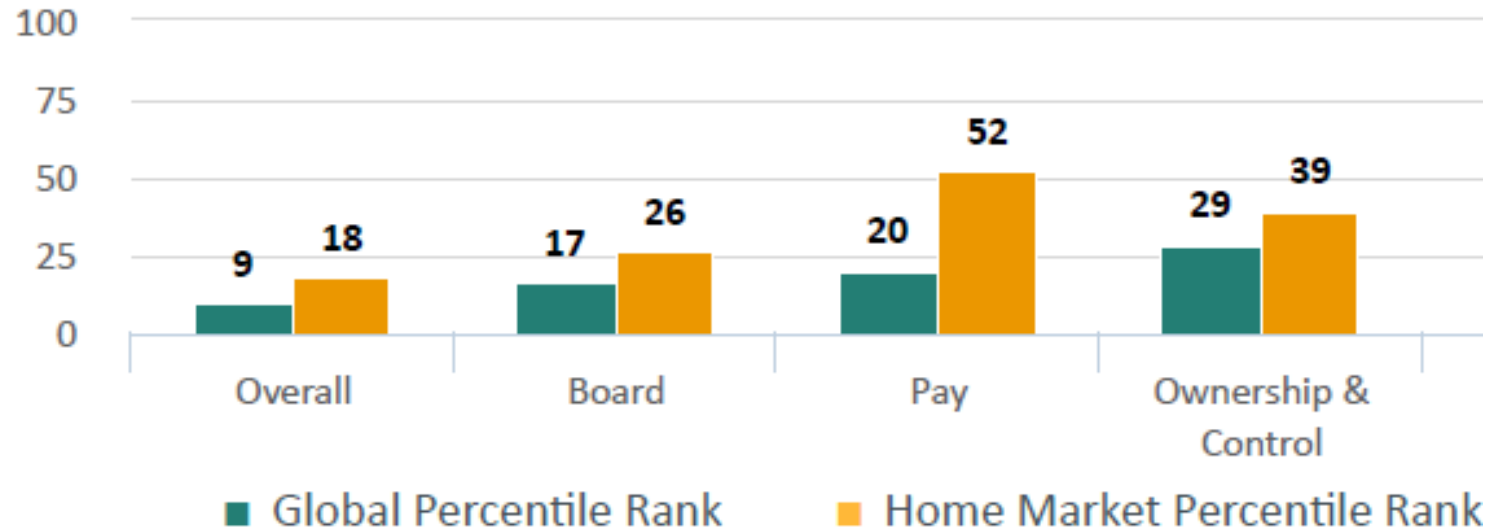
Pricing

Globally firms with stronger corporate governance trade, compared to their peers with weak corporate governance, at

1. Similar market to book value (MTB) and P/E multiples
2. Higher market to book value (MTB) and P/E multiples
3. Lower market to book value (MTB) and P/E multiples

Predictable?

GOVERNANCE THEMES AND RANKINGS



Predictable?

Board Independence

Outside related directors:	3
Total directors:	11
Outside directors:	3
Board independence:	27.27%

Board Leadership

CEO Name:	[REDACTED]
Chair / CEO roles combined:	No
Company lacks an independent lead director:	Yes

Board Skills & Diversity

Female directors:	2
Female directors as percent of total:	18.18%

Pay Figures

Company fails to disclose specific pay totals for executives:	Yes
---	------------

Severance & Change of Control

Company lacks a clawback policy:	Yes
----------------------------------	------------

Committee Structure

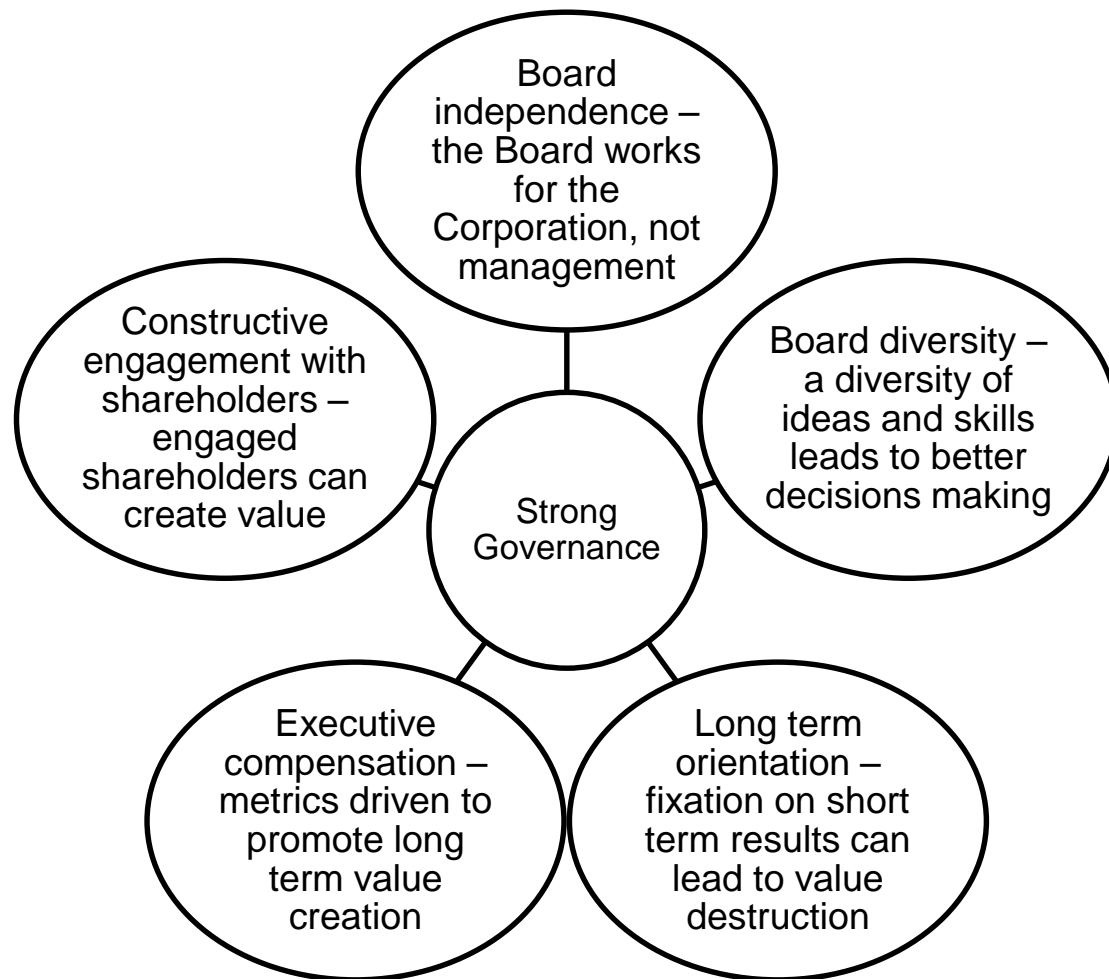
Company lacks a fully independent audit committee:	Yes
--	------------

The Status Quo

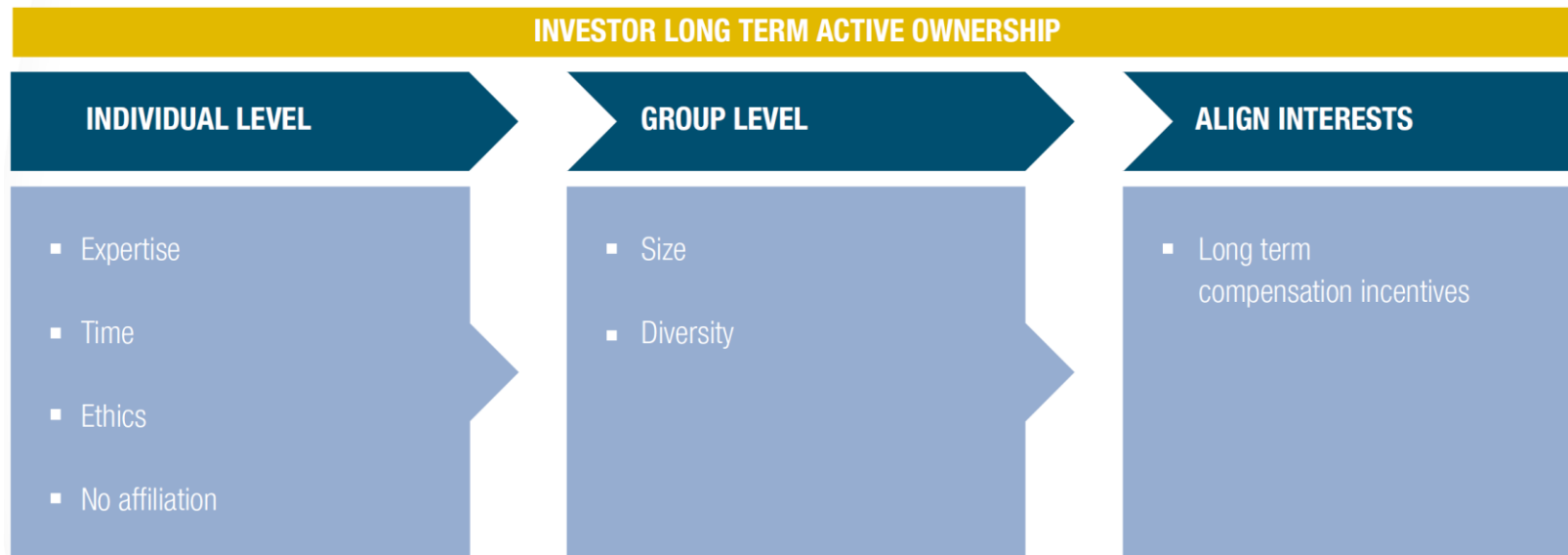
Among Greek large cap companies what percentage have better corporate governance scores than similar companies in other countries according to MSCI?

1. 50%
2. 30%
3. 10%

The Principles



The Framework



Source: [Integrated Governance](#). KKS Advisors and UNEPFI.

Independence

- Not dependent on management
- Skilled
- Well informed
- Dedicated

An application to Occidental Petroleum in 2011

	TENURE	AGE	INDUSTRY EXPERTISE	INDUSTRY RELEVANCE	GEOGRAPHIC EXPERTISE	GEOGRAPHIC RELEVANCE	BUSY	GENDER
Abraham	7	57	Politics	Yes	USA	Yes	5	M
Chalsty	16	76	Finance	Yes	USA	Yes	4	M
Djerejian	16	71	Diplomat (Politics)	Yes	Middle East	Yes	3	M
Feick	14	66	Engineering	Yes	USA	Yes	4	M
Gutierrez	3	56	Finance	Yes	USA/Latin America	Yes	4	M
Maloney	18	79	Computer equipment	No	USA	Yes	1	M
Poladian	4	58	Real estate	No	USA	Yes	5	M
Segovia	18	73	Construction	No	USA/Latin America	Yes	3	M
Syriani	29	67	Conglomerate	Yes	Middle East	Yes	4	M
Tomich	32	72	Construction	No	USA	Yes	4	F
Weisman	10	74	Healthcare	No	USA	Yes	2	M
Overall	✓	✓		✓ ✓		✓ ✓ ✓		✓

Source: [Integrated Governance](#). KKS Advisors and UNEPFI.

Board



- Diverse board of directors, with members coming from the investment community, technology sector, law
- In 2010, when Amazon was expanding its offering in the Ebook and tablet field, company elected head of Hewlett-Packard's Palm smartphone unit, to its board of directors
- In 2012, Amazon elected Deputy Attorney General during the Clinton Administration, to its board with experience representing corporations in the regulatory and enforcement arenas
- Cultivating a board with the expertise necessary for Amazon's strategy

Board



- >90 percent of directors independent
 - 100 percent of the compensation and audit committee members independent
- ~30 percent of the board comprised by female directors
- Chairman position separate from the Chief Executive Officer
- Board met >10 times per year over the past few years and no director attended <75 percent of meetings
- Independent directors meet without management present twice each year
- All directors expected to attend the annual meetings of stockholders

Compensation



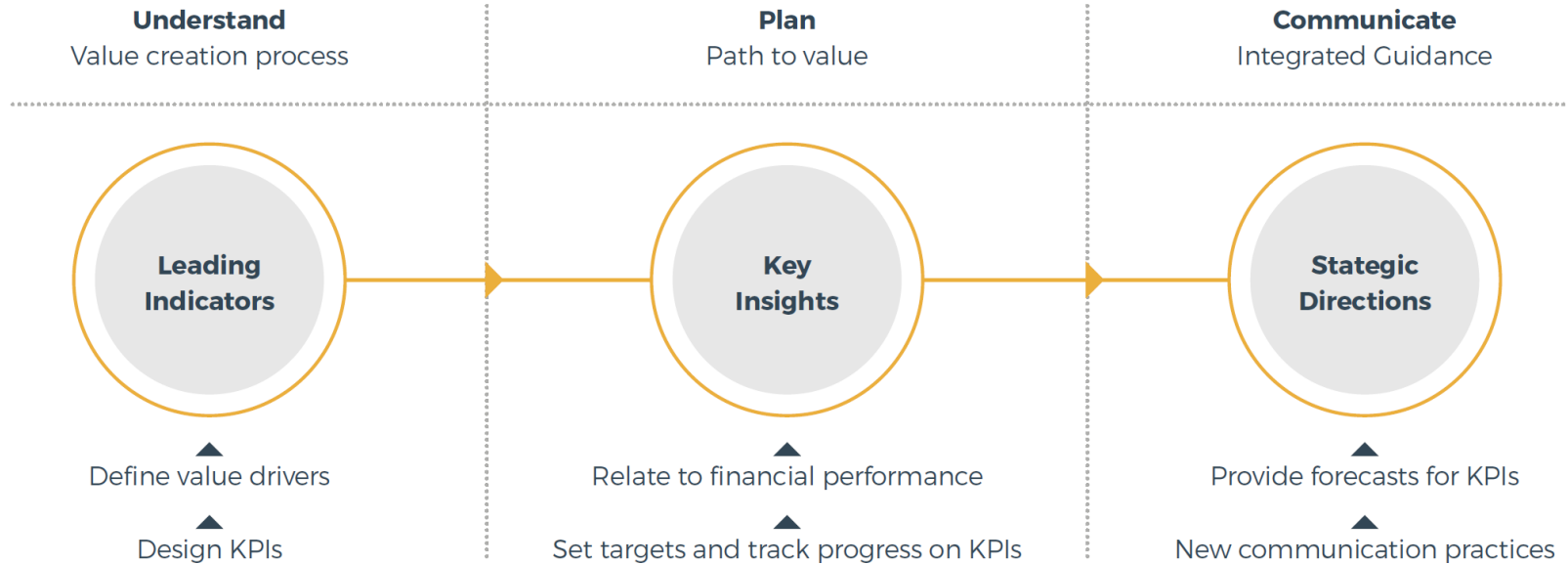
- 40 percent weight to financial and commercial market share goals
- 50 percent to product development and launch, pipeline and lifecycle goals
- 10 percent to organizational and cultural goals

Linking rewards to both

- near-term results and
- progress toward longer-term results

Transparency

Integrated Guidance Framework



Source: [Implementing Integrated Guidance - Case studies in communicating value-relevant information](#) KKS Advisors and Generation Foundation

Transparency

Sample Companies



TATA MOTORS



Presentation Section Ranking:

First

General Motors

Second

Fiat Chrysler

Third

Ford Motors

Fourth

Volkswagen

Fifth

Tata Motors

Communication Practices

The level of coverage around the leading indicators:

55%
in reporting

20%
in the presentation section

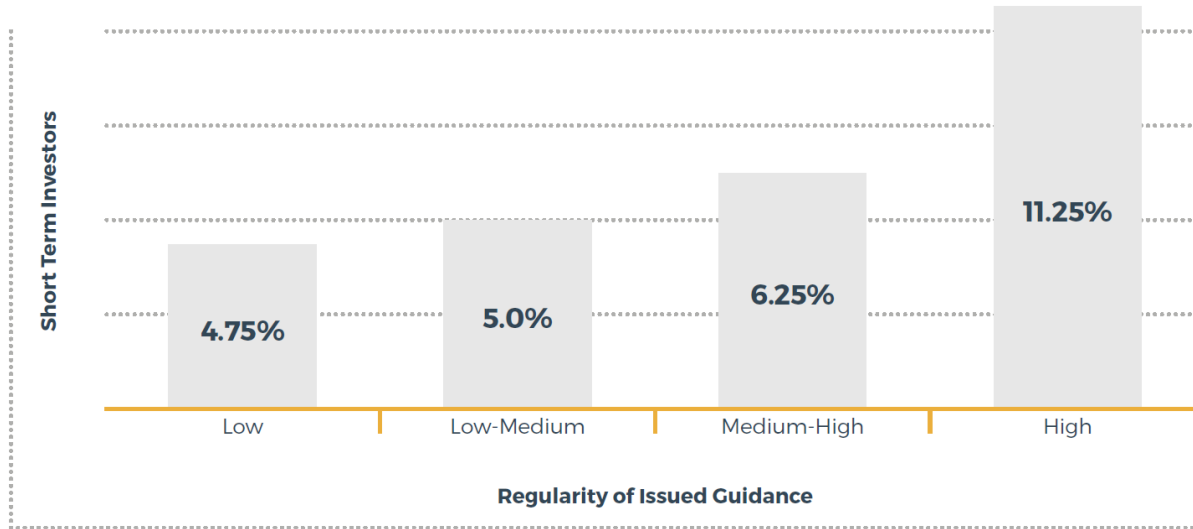
29%
in the Q&A section

Automobiles	
Environmental capital	Materials efficiency & recycling
Social capital	Product safety
Business model & innovation	R&D Operational efficiency M&A Fuel economy & use-phase emissions Strategic management
Leadership & governance	Management of macroeconomic risks Materials sourcing
Human capital	Labor relations

Source: [Implementing Integrated Guidance - Case studies in communicating value-relevant information](#) KKS Advisors and Generation Foundation

Maintaining a Long-term Mindset

Relationship of Regularity of Quarterly Forecasts With Institutional Ownership⁸



The figure shows the relationship between the frequency of quarterly forecasts provided by managers and the institutional ownership exhibited by the companies. Transient ownership increases in a linear manner as regularity of forecasts increases.

Source: [Earnings Guidance - Part of the future or the Past?](#) KKS Advisors and Generation Foundation

Recommendations: Board

- ✓Qualifications and experiences each board member brings evaluated in relation to the industry and markets the company is operating
- ✓Board attendance metrics should be close to 100%
- ✓Board members have access to information required
- ✓Board size is appropriate for functioning independently at the group level
- ✓Diverse board in terms of gender, race, and experiences/background

Recommendations: Compensation

Executive compensation should

- have significant equity shares portion that vest over the long-term (5-10 years)
- be linked to nonfinancial metrics strategically critical for the company

Recommendations: Transparency

- ✓ Design few (3-5) strategic KPIs
- ✓ Link each one to future expected margin expansion or sales growth
- ✓ Provide long-term targets for each KPI with medium-term milestones
- ✓ All numbers supported by robust management control systems and reviewed by a fully independent audit committee

THANK YOU



HARVARD | BUSINESS | SCHOOL