



Corporate Governance and the Financial Crisis – The Way Ahead

Marcello Bianchi

Chairman of the OECD Steering Group
on Corporate Governance





The role of Corporate Governance in the Crisis: the evidences

Along with macroeconomic drivers, corporate governance failures have played a very relevant role in this crisis

While many of the corporate governance failures affected financial companies, most of the structural weaknesses are common to large and complex listed companies.

The overcoming of corporate governance weaknesses is a key element of an effective response to the crisis and It has been established as one of the main goals of the international initiatives.





The OECD action plan

Two pillars:

- A. establishing a set of recommendations for better implementation of the OECD Principles in the specific areas where we found out the most relevant implementation gaps of the principles
- B. developing better and systematic mechanisms for peer review and peer dialogue as instruments for effectively monitoring implementation and timely identifying new “problems”





A. The recommendations

The areas that we have addressed with priority are:

1. the **governance of remuneration**,
2. implementation of effective **risk-management**,
3. the quality of **board practices**
4. the exercise of **shareholders rights**





1. Governance of remuneration:

Decision making

- remuneration should be established through a sound governance process (role of independent board members and “say on pay policy”)

Incentive system designing

- should encourage long term performance and ex post accountability
- legal limits such as caps and some fiscal measures should be limited in time and scope
- avoid a shift towards excessive fixed remuneration components

Transparency

- Transparency needs to be improved (cost adjusted for risk)





2. Risk management

Board responsibility

- establishing and overseeing the risk management structure (enterprise-wide approach rather than business unit)

Relevance and Independence of risk managers

- Risk management should be independent from profit centers and report directly to the Board of Directors
- Remuneration and incentive systems should be monitored and influenced by the risk management system

Disclosure of risk policy

- Disclosure of risk factors should be focused on those identified as more relevant
- rank material risk factors on the basis of a qualitative selection whose criteria should also be disclosed





3. Board structure and practices

Competence

- Board should identify the skill composition of the board (role of nomination committee)
- Policy for board training and evaluating

Independence

- Extend the independence criteria
 - Consider the length of tenure under the same CEO
 - Consider interlocking and favor board diversity

Transparency

- Companies should explain their leadership structure and disclose the corporate governance arrangements (e.g. CEO and Chair not separated or where the office of Chairman is covered by the person controlling the issuer).





4. The exercise of shareholder rights

The role of shareholders

- Enhancing their role in nomination and appointment of board members
- Barriers to voting (e.g. share blocking) should be removed and the use of flexible voting mechanisms should be encouraged

Institutional Investors activism

- Institutional investors should not be discouraged from coordinating
- Institutional shareholders should be required to publish their voting records and improve their governance standards.
- The role of active alternative investors should not be hampered as a side-effect of regulatory reforms.





Conclusions

- corporate governance failures are mostly due to implementation gap of existing rules and standards (role of bodies in charge of providing guidelines and best practices)
- while certain rules and regulations can be improved (under RIA procedures), more effective disclosure and stronger enforcement are the most important tools for policy makers
- specific danger lies in transplanting corporate governance reforms designed to address systemic risks in the financial markets to the corporate sector generally.

