

APPROACHES TO CORPORATE GOVERNANCE WORLDWIDE

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ABSTRACT

This study examines a number of corporate governance Codes currently in use by countries around the world from the perspective of an investor from a country that uses the Anglo-Saxon Board model. The corporate governance Codes from Belgium, Brazil, China, France, Germany, India, Italy, Japan, Malta, Netherlands, Russia, Sweden, Turkey, the UK, and the USA are compared against the Australian Stock Exchange's 'Principles of Good Corporate Governance and Best Practice Recommendations (2003)'.

The results of the analysis help contrast the different corporate governance Codes. The conclusion that is drawn is that if an investor understands the Australian Code, they are in a good position to effectively evaluate a foreign Code.

INTRODUCTION

International shareholding allows the Australian investor to divest the systematic risk of one market. One aspect of a foreign company that an Australian investor may want to evaluate is the corporate governance statement. This may be driven by ethical motivations (the emergence of socially responsible investment), or concern about corporate structure. To effectively evaluate a corporate governance statement, the investor must understand the differences between Australia's and the other country's corporate governance systems.

The research objective for this study is to provide background documentation for an Australian investor so they can effectively and realistically evaluate corporate governance statements released by foreign companies. This is achieved through an understanding of the relevant corporate governance Code of that country.

The benefit of this study is to provide investors a detailed analysis of the contents of different corporate governance Codes from an Australian perspective. This can be a great advantage when evaluating the corporate governance statement released by a foreign company, as it can be put in context of the country's corporate governance Code. This is preferable to the rather limited practise of comparing foreign company corporate governance statements against the Australian Code.

METHOD

The countries selected in part represent the major Board models found around the world. The United Kingdom, United States, and Australia epitomise the Anglo-Saxon Board system; Germany and The Netherlands the Continental-European Board system; France, Italy, and Belgium the Latin Board system; and Japan as a stand-alone system.

The data evaluation method used for this study is an original framework. Each country's Code was evaluated against the Australian Stock Exchange's 'Principles of Good Corporate Governance and Best Practise Recommendations (2003)'. Rather than define a new set of corporate governance rules, for each

Recommendation, the relevant section(s) of each Code was referenced. A summary of this research is provided in Table 2. An explanation for the symbols used in Table is provided in Table 1.

RESULTS

Symbol	Explanation
✓	Full compliance. The corporate governance Code fully complies with the Recommendation as stated
-	Not required / no compliance
P	Partial compliance. The corporate governance Code includes a rule (or rules) that are similar in nature to the Recommendation, but some aspects are different
A	Alternative circumstances. The intent of the Recommendation is addressed in the corporate governance Code, but through alternative circumstances

Table 1: Explanation of symbols used in Table 2[illegible]

	China	Malta	Turkey	United Kingdom	United States	Germany	Netherlands	Sweden	Belgium	France	Italy	Japan	Brazil	India	Russia
Recommendation 6.1 <i>Develop and enact a clear communication link to shareholders</i> <i>Encourage shareholder participation at general meetings</i>	✓ ✓	✓ ✓	✓ ✓	✓ ✓	- -	✓ ✓	✓ ✓	- ✓	✓ ✓	✓ ✓	✓ ✓	✓ -	- ✓	✓ ✓	✓ ✓
Recommendation 6.2 <i>Require the external auditor to attend the Annual General Meeting and be available for questions from shareholders regarding the company audit</i>	-	-	P	P	-	-	✓	✓	-	-	A	A	-	P	-
Recommendation 7.1 <i>The Board should establish policies on risk oversight and management</i>	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓
Recommendation 7.2 <i>The Chief Executive Officer and Chief Financial Officer, pursuant to Recommendation 4.1, provide a written submission to the Board stating that the company's internal control and compliance structure is effective</i>	-	-	A	A	✓	-	✓	A	P	-	A	-	P	P	-
Recommendation 8.1 <i>The company discloses the performance evaluation of:</i> - The Board - Board committees - Directors - Key executives	✓ - ✓ ✓	- - - -	P - P -	✓ ✓ ✓ ✓	P P P P	- - - ✓	✓ - ✓ ✓	✓ - P P	✓ P ✓ ✓	✓ - ✓ -	- - - -	- - - -	✓ - ✓ ✓	P - P P	✓ - P P
Recommendation 9.1 <i>Disclose the remuneration policy and links between remuneration and corporate performance for:</i> - Directors - Senior executives	✓ P	✓ P	✓ ✓	P P	✓ ✓	A ✓	✓ ✓	✓ ✓	✓ ✓	✓ ✓	P P	- -	✓ ✓	✓ -	✓ ✓
Recommendation 9.2 <i>The Board should contain a remuneration committee</i>	✓	✓	-	✓	✓	✓	✓	A	✓	✓	✓	A	✓	✓	✓
Recommendation 9.3 <i>Clearly distinguish the structure of executive and non-executive Directors</i>	P	✓	✓	✓	✓	✓	✓	✓	✓	P	✓	✓	✓	✓	✓
Recommendation 10.1 <i>Establish a 'Code of Conduct' guiding compliance with legal and other obligations to stakeholders</i>	✓	✓	✓	-	✓	✓	✓	P	✓	P	P	✓	✓	P	✓

Table 2: Summary of Codes compared to Australian Stock Exchange's 'Best Practises and Recommendations'

CONCLUSIONS

There is little consistency between the corporate governance Codes, in many instances even between countries that adopt the same Board model. However it should be noted that the information collected was compared against a framework with an Australian (and Anglo-Saxon Board model) bias.

The main purpose of this study was to provide investors with a guide to corporate governance Codes found throughout the world. Many of the Australian (and Anglo-Saxon Board model) corporate governance principles still apply to other Board models. This means the investor's understanding of Australian corporate governance principles can provide a reasonable basis for understanding of a corporate governance statement released by a foreign company. However, through the information gained from this study, the investor will have a heightened appreciation of the differences between the Australian and foreign Codes. It will also give the investor an awareness of a number of corporate governance Codes currently adopted around the world.

REFERENCES

A list of references is available from the authors upon request.