MBA

PPA
BUSINESS SCHOOL
Pôle Paris Alternance

SSI

The Graduate School

Learning Outcomes

- What is Corporate Governance?
- Why Corporate Governance?
- The Parties involved in Corporate Governance
- The Functions of Corporate Governance
- The Principles of Corporate Governance
- The 4 Pillars of Corporate Governance
- The 4 P’s
- The Models of Corporate Governance
- Financing Options

Corporate Governance

- the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community)
  - Business Dictionary

- The corporate governance framework consists of

  (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards,

  (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles,

  (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.

Why Corporate Governance?

- Better access to external finance
- Lower costs of capital-interest rates on loans
- Improved company performance-Sustainability
- Higher Firm valuation and share performance
- Reduced Risk of corporate crisis & scandals

The Parties


Corporate Governance - Parties
Share-holders
Those that own the company
Directors
Guardians of the Company's assets for the Shareholders
Manager
Who use the Company's assets

The Parties


Efficient Capital Markets
Board
Auditors
Regulatory Enforcement
Investors
Customers
Creditors
Managers
Suppliers
Analysts
Unions
Legal Tradition
Regulators
Media
Accounting Standards
Societal and Cultural Values

The Functions

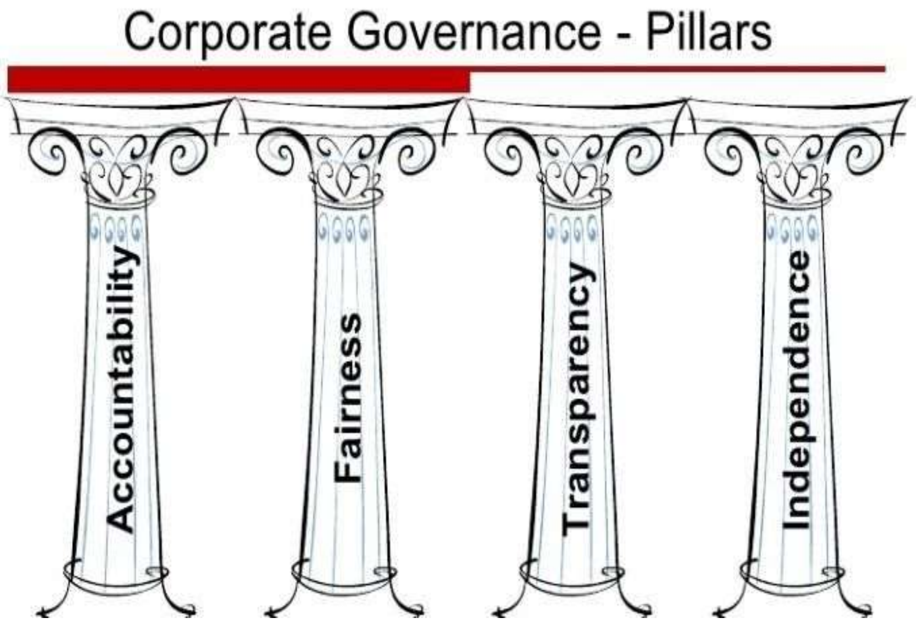
Principles of Corporate Governance

- **Sustainable development of all stake holders**
- **Effective management and distribution of wealth**
- **Discharge of social responsibility**
- **Application of best management practices**
- **Compliance of law in letter & spirit**
- **Adherence to ethical standards**

Corporate Governance

Four Pillars of Corporate Governance

- Accountability
- Fairness
- Transparency
- Independence



Accountability

- Ensure that management is accountable to the Board

- Ensure that the Board is accountable to shareholders

Fairness

- Protect Shareholders rights

- Treat all shareholders including minorities, equitably

- Provide effective redress for violations

Transparency

- Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance

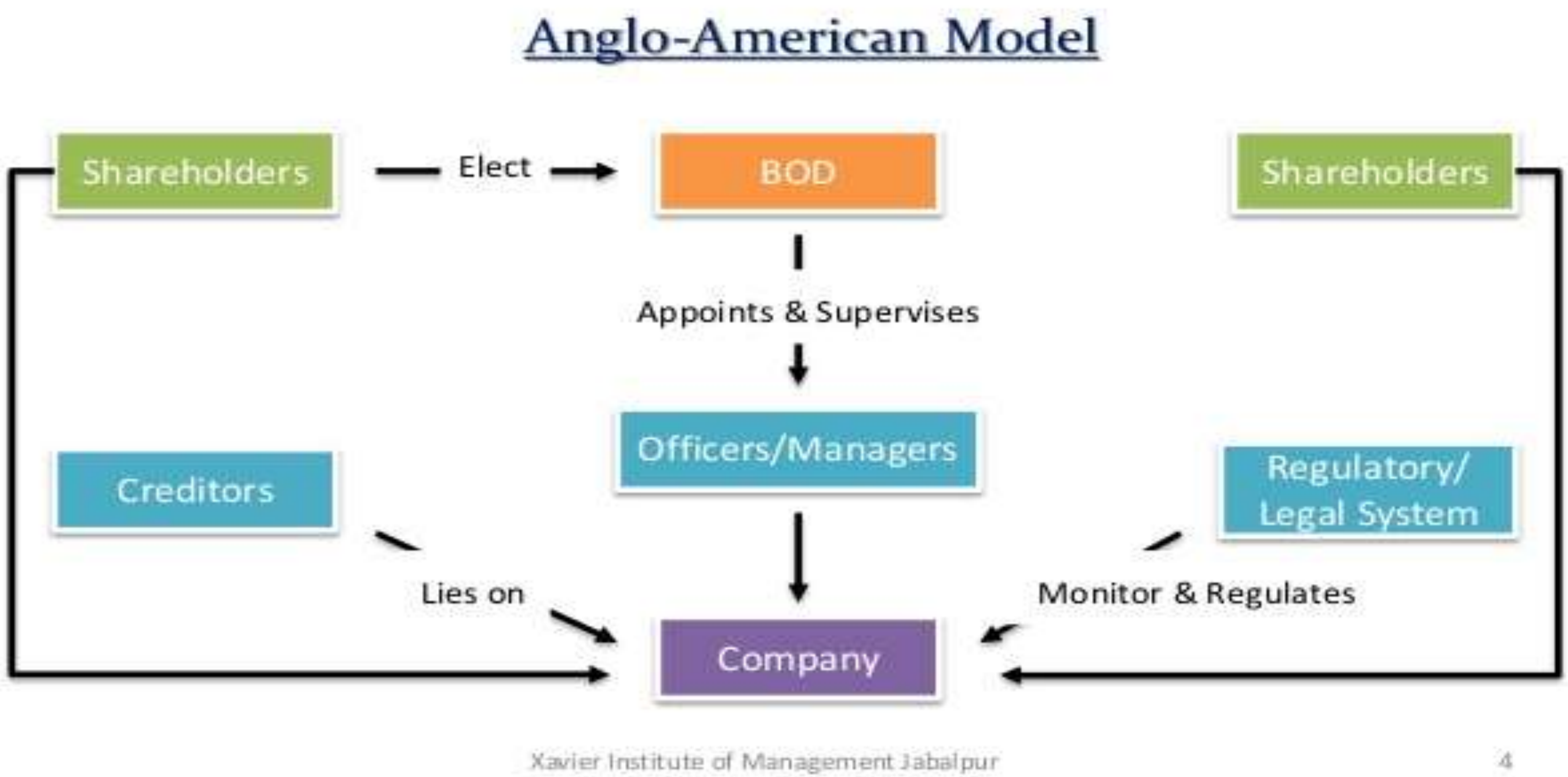
Elements of Corporate Governance

- Good Board practices
- Control Environment
- Transparent disclosure
- Well-defined shareholder rights
- Board commitment

The Anglo-American Model

- More individualistic business societies in Great Britain and the United States. This model presents the board of directors and shareholders as controlling parties. Managers and chief officers ultimately have secondary authority.
- Managers derive their authority from the board, which is (theoretically) beholden to voting shareholders' approval.
- Most companies with Anglo-Saxon corporate governance systems have legislative controls over shareholders' ability to assert practical, day-to-day control over the company.

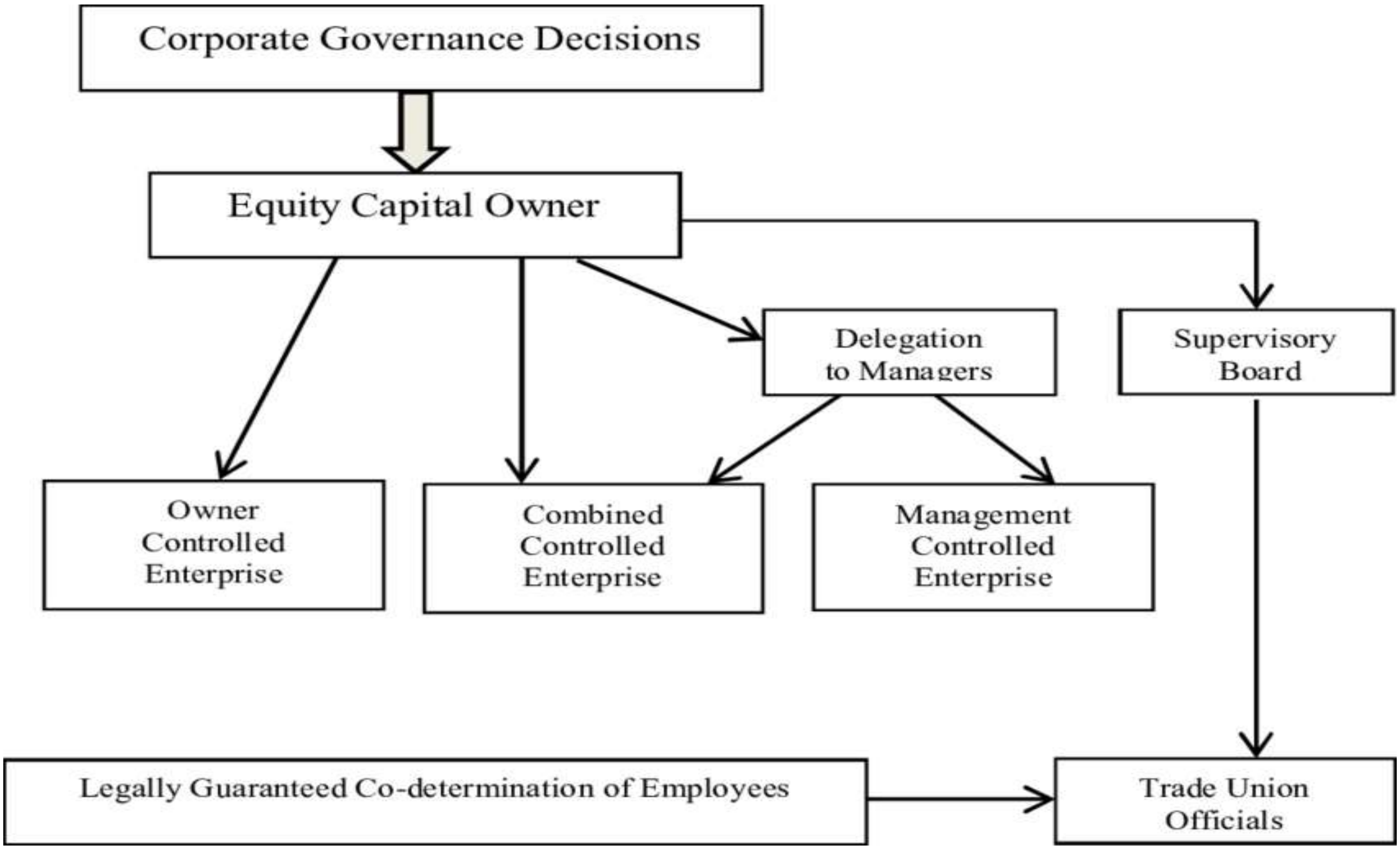
The Anglo-American Model



The European Model

- The corporate entity is seen as a coordinating vehicle between national interest groups. Banks often play a large role financially and in decision making for firms. Special protections are offered to creditors, particularly politically connected creditors.
- These companies usually have an executive board and a supervisory council. The executive board is in charge of corporate management; the supervisory council controls the executive board.
- Government and national interest are strong influences in the continental model, and much attention is paid to the corporation's responsibility to submit to government objectives.

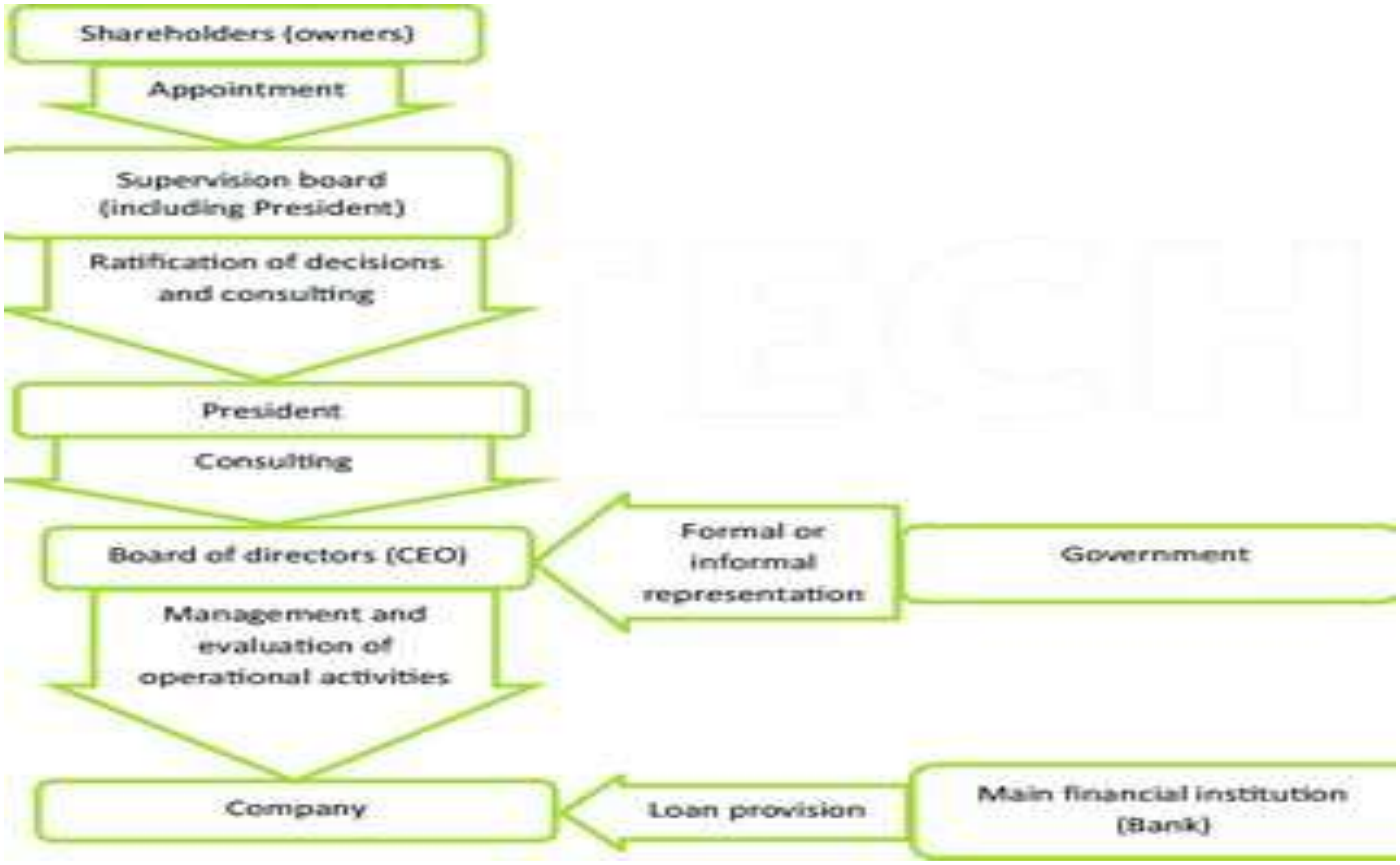
The European Model



The Japanese Model

- Governance patterns take shape in light of two dominant legal relationships: one between shareholders, customers, suppliers, creditors and employee unions; the other between administrators, managers and shareholders.
- There is a sense of joint responsibility and balance to the Japanese model. The Japanese word for this balance is "keiretsu," which roughly translates to loyalty between suppliers and customers.
- In practice, this balance takes the form of defensive posturing and distrust of new business relationships in favor of the old.

The Japanese Model



The 4 P's

4 Ps of Corporate Governance

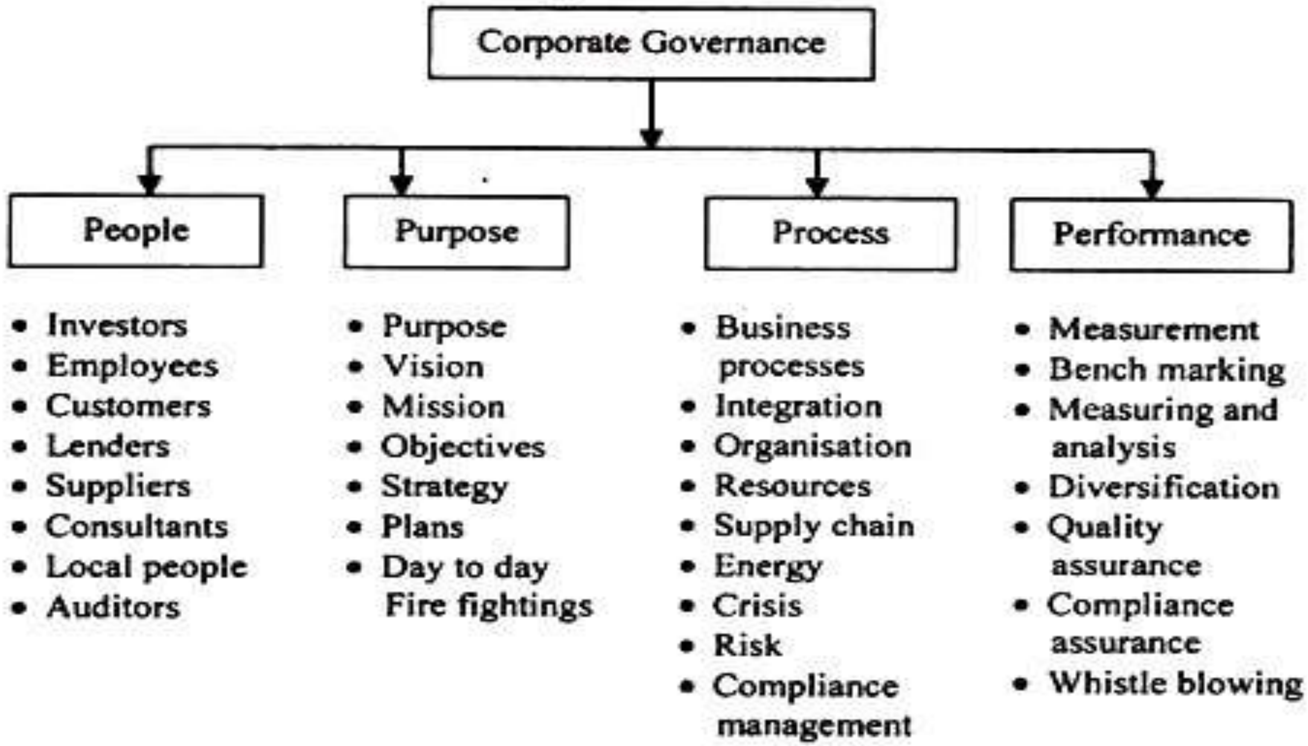


FIG. 3.2: 4 PS OF CORPORATE GOVERNANCE

Corporate Financing Options