Corporate Governance Scorecard

Baku 2011

prof. Bistra Boeva
Q&A  Workshop 3

Answers

We would greatly appreciate if the countries – participants at this workshop could share their experience and give us any recommendations on this topic.

Q&A

Are you interested in practical lessons learned from other countries?

Yes, especially, the practical experience of the countries in Eastern Europe.
Main topics

Corporate governance Scorecard (CG Scorecard):
- rationale (1)
- about the methodology of CG Scorecard - German model (2)
- lessons learned from Bulgaria (3)
- lessons learned from SEE countries (4)
- are there any other evaluation methods for corporate governance (5)

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Why CG Scorecard - rationale

- An assessment tool that is driven by the market: German Association of financial analysts offered the product to local public companies;
- An assessment tool that evaluates the degree of conformity of the company CG practice with the National CG code;
- CG Scorecards are based on soft-law obligations that companies voluntarily choose to follow;
- Systematic and quantitative evaluation approach;
- Standardized format and self-assessment (Comply or explain)

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SWOT analysis of CG Scorecard

Strengths of CG Scorecard:

- Enables companies to assess the results of their CG practice;
- Enables comparisons across industries and countries;
- Informs business and investors about CG practice of respective company or industry;
- High degree of usage.

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SWOT analysis of CG Scorecard - weaknesses

- Limited assessment opportunities: CG practice and implementation of CG code could not be measured 100%
- Probability of non-objective assessment
2.CG Scorecard—structure and methodology—German example

- First step: elaboration and introduction German CG Code—”model catalogue” for listed German Companies
- CG Code based on “comply or explain” principle—EU practice
- Second step: elaboration and introduction of CG Scorecard that corresponds to the Code Structure
  - Present version of the CG scorecard includes five criteria
CG Scorecard - main criteria

- Shareholders and General Shareholders Meeting
- Management Board
- Supervisory Board
- Transparency
- Internal Control

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How does CG Scorecard work

1. the evaluator has **three options** to assess the implementation of the basic principles/criteria:
   - yes(1),
   - partially(0.5)
   - and no(0)

2. Every criteria is given an **weight** (standard and individual).

3. each point is weighted by a “**standard weighting**”

4. last step is the calculation of the **Total Score**
• Possible score- recommended by German Experts - Cr. Strenger is 65-70 %
• The remaining percentage should be achievable when additional efforts will be implemented to improve CG
German CG Scorecard

- Shareholders and GSM 12%
- Management Board 20%
- Transparency 16%
- Supervisory Board 45%
- Internal Controls 7%

TOTAL CG
CG Scorecard- Bulgarian experience (3)

Milestones on the way of establishing CG standards (CG Code and CG Scorecard) in Bulgaria

- 2000 LPOS
- 2002 WB ROSC I
- 2000-2006 Bulgarian experts and the regional OECD Round Tables
- 2002-2009 Investor Associations’ award “Best CG company”
- 2006 – National CG Task force established
- 2007- National CG Code Launched
- 2009 -2010 WB ROSC II; Bulgarian CG Scorecard launched
- 2011- Bulgarian CG Scorecard implementation- first results and problems diagnosed
Bulgarian CG scorecard: main steps of elaboration

- Consensus among the members of the National Taskforce for CG code on necessity to implement reliable tools for the assessment of corporate governance practice.

- German experience and German scorecard model guided the process of elaboration of Bulgarian CG Scorecard (2007-2009).

- Glo-loc principle determined the structure and weights of the national CG scorecard: German model, on one hand, and National CG Code structure and country business system uniqueness: co-existence of one tier and two tier models of CG, on the other.

- Elaboration, launch and implementation is supported by the business community, BSE and FSC. Public-private partnership is a sine qua non for the good results of CG Scorecard implementation.

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## Audit and internal Control-20%

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<td>2. Has the company established risk management system</td>
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<td>3. Collaboration between the Company Boards and A.C.</td>
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<td>4. Is the Audit Committee chaired by an independent director</td>
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<td>5. Does the company comply with the requirement for the rotation of the external auditor</td>
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Assessment process

IR director → Independent expert?? → BSE CG index

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Assessment process:


2. Dissemination of the results - annual report and website of the company (section shareholders).

3. CG Scorecards are evaluated by independent experts (to be decided).

4. Reassessment of the CG Scorecards (to be decided).

5. CG Scorecard results shall be used by BSE for the calculation of BSE CG index (annual base).

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problems

- At the Stage of CG Scorecard design
  - coping with the conformity of the Scorecard to CG Ccode. Impossible to put all norms of the code in the criteria of the Scorecard. Careful selection of norms and adequate transformation into Scorecard criteria
  - Some of the countries in SEA focus on detailed criteria – a practice that led to difficulties in the assessment process
  - Difficulties in finding the balance between the CG Code norms and the number of criteria

- At the Stage of CG Scorecard implementation
  1. assessment done by Investor Directors
  2. lack of team approach
  3. a certain degree of subjectivity
A few ideas how to improve the implementation of CG Scorecard

- clear understanding of corporate boards about the strengths and weakness of CG Scorecards
- the administration of the implementation of CG Scorecard - fulfillment is not a one man show
- corporate secretary or IRD has at least to coordinate the administration process with corporate boards members

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A few ideas for improvement

➢ a team approach is a prerequisite for the effective implementation - final approval of the CG Scorecard by board members. In some countries a certificate is required.
CG Scorecards results of the companies have to be reviewed by independent experts.

CG Scorecards results of the companies have to be presented to the market participants, investment community and media.
Lessons learned from SEE countries (4)

- OECD CG Roundtables in SEE
- SEE countries and CG Codes
- The Corporate Governance Scorecards (CG Scorecards) for Bosnia and Herzegovina, Macedonia, Montenegro and Serbia were each developed through similar processes
Key Steps of development of CG Scorecard

- Identification of a relevant Corporate Governance Code
- Involvement of Stock Exchanges as local partners
- Creation of working groups with additional stakeholders
- International peer-review of the final draft of the CG Scorecard (PSAG members)
- Training of local partners on the application of the CG Scorecard
- Promotion of the CG Scorecard - media, conferences
- Supporting various applications of the CG Scorecard
- On-going knowledge transfer to local partners
- Development of new concepts related to the CG Scorecard by local partners
SEE experience- training the users of CG Scorecard

- In the region it was understood that developing a tool and providing to companies without appropriate training and presentation of benefits has limited opportunities for success
- In Bosnia and Herzegovina, Mr. Strenger delivered training to the exchanges
- In Macedonia/FYROM local IoD organized training activities

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Supporting various applications of CGS

- four principal areas of application:
  1. corporate governance reviews were undertaken in selected companies,
  2. companies started to use the CG Scorecard for self-assessment,
  3. competitions started being organized based on CG Scorecard results, and
  4. regulators started brainstorming how they could use the CG Scorecards for their own purposes.

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Lessons learned from SEE-important conclusions

- CG Scorecards offered totally new perspectives on corporate governance
- The CG Scorecards helped in re-positioning the CG Codes in SEE countries
- CG Scorecard is an effective PR tool for the companies

and the purpose of CG Scorecard as a tool for a quick and simple self-assessment has not change
Another approaches for Corporate Governance Evaluation(5)

- Davis Advisors- country approach for corporate governance evaluation- 10 criteria
- McKinsey survey
- WEF
- Doing Business(WB)
CG Scorecard

Summary:
- efficient tool for self assessment
- good benchmark tool
- standard methodology
- improving corporate governance practice and compliance with CG codes and standards
- positive effect on country’s attractiveness for investors

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Q & A

“...NEW IDEAS IN GOOD CG GUIDE DEVELOPMENT AND REFRESHING MY CAPACITY TO ASSIST MY COUNTERPARTS MORE EFFECTIVELY.”

Thank you !!

prof. Dr. Sc. Bistra Boeva