Rationale for Developing CG Scorecards

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Agenda

- Introduction
- Rationale for developing CG Scorecards
- Key Elements of a Scorecard
- What Benefits a Scorecard should achieve
- Main Steps in developing a CG Scorecard
Introduction

- Corporate Governance efforts increased in Germany in the late 1990s as result of:
  - Privatization of government-owned companies
  - Research that showed that good CG had a clear impact on firm value
  - German KonTraG law of 1998
  - Well publicized failures in erstwhile ‘blue chip companies’
  - First Governance Code published by Private Initiative in 1999

- 2000: Formation of the German CG Commission

- First release of the CG scorecard in 2000

- Today: Adoption of the scorecard particularly in emerging and developing countries (e.g. Bulgaria, Croatia, Indonesia, Macedonia, Montenegro, the Phillipines, Serbia)
Clear link between good corporate governance and company performance.

Good governance is not only essential for creditors and investors, but for employees and the society as a whole.

CG scorecards are an effective tool for all stakeholders to assess the companies’ fulfilment of best practice. A concise structure of the major criteria with the relevant individual points is followed and can be readily compared with the peer group or on a country basis.

Scorecards assess and provide the opportunity to systematically improve the governance practices of companies.
Rationale for developing CG Scorecards II

- Using the scorecard ensures higher attention of the board and senior management to the value of improving the company’s corporate governance practices.

- Good scorecard results help the company’s investor and public relations efforts with increasing recognition.

- Regulators can use the scorecard to diagnose weaknesses in their country’s overall corporate governance framework and its implementation.

- Regulators can also target their enforcement efforts based on scorecard results.
Key Elements of a Scorecard I

- The scorecard’s content and structure should reflect the national environment (e.g. the national code) and international best practices and standards (e.g. OECD Principles of Corporate Governance).

- **Measurement:** The criteria and its answers are weighted to obtain the overall score for the company. This weighting allows to tailor the scorecard to local conditions and priorities and to determine the level of fulfilment, which determines the performance score.
Key Elements of a Scorecard II

The scorecard should cover most if not all of the following criteria:

- Corporate Governance - Commitment
- Shareholders rights and the General Meeting
- Cooperation between Management Board and Supervisory Board
- Management Board
- Supervisory Board
- Transparency
- Reporting and Audit of the Annual Financial Statements
- Internal control system, internal audit function and risk management
- Relationships with Stakeholders
Key Elements of a Scorecard III

- A **summary page** shows the key factors that contribute to the overall score.

- **Assessment of governance quality** can be made as follows:
  - Score of 75 percent for companies that meet the mandatory principles
  - Score of up to 100 percent for companies that fulfil all the code’s additional recommendations and international best-practice standards
What Benefits a Scorecard should achieve

- Comprehensive overview of a company’s CG situation.
- Facilitate the work of analysts and investors through a systematic and easy overview of all relevant issues of CG.
- Enable companies to easily assess the ‘reach’ and the quality of their own governance situation.
- Comparisons across industries and countries.
- Available to all interested parties via the internet.
- No or very little cost for implementation and application.
- Easy usage: the application of the scorecard via programmed tools (MS Excel) enables active dialoguing.
- Allows investors to set minimum scores for governance as part of their investment policy.
Main Steps in developing a CG Scorecard

1. Identify relevant national CG code provisions and international best practices to define the focus.
2. Select experienced partners to develop the scorecard.
3. Form working groups or taskforces with key stakeholders, some of whom were involved in drafting the code.
4. Initiate peer review of the scorecard’s final draft, including international experts.
5. Involve regulators, stock exchanges, and key institutional investors to achieve their backing of the scorecard.
6. Train local partners on applying the scorecard.
7. Promote the CG scorecard appropriately and develop media relations to ensure public attention for the scorecard.