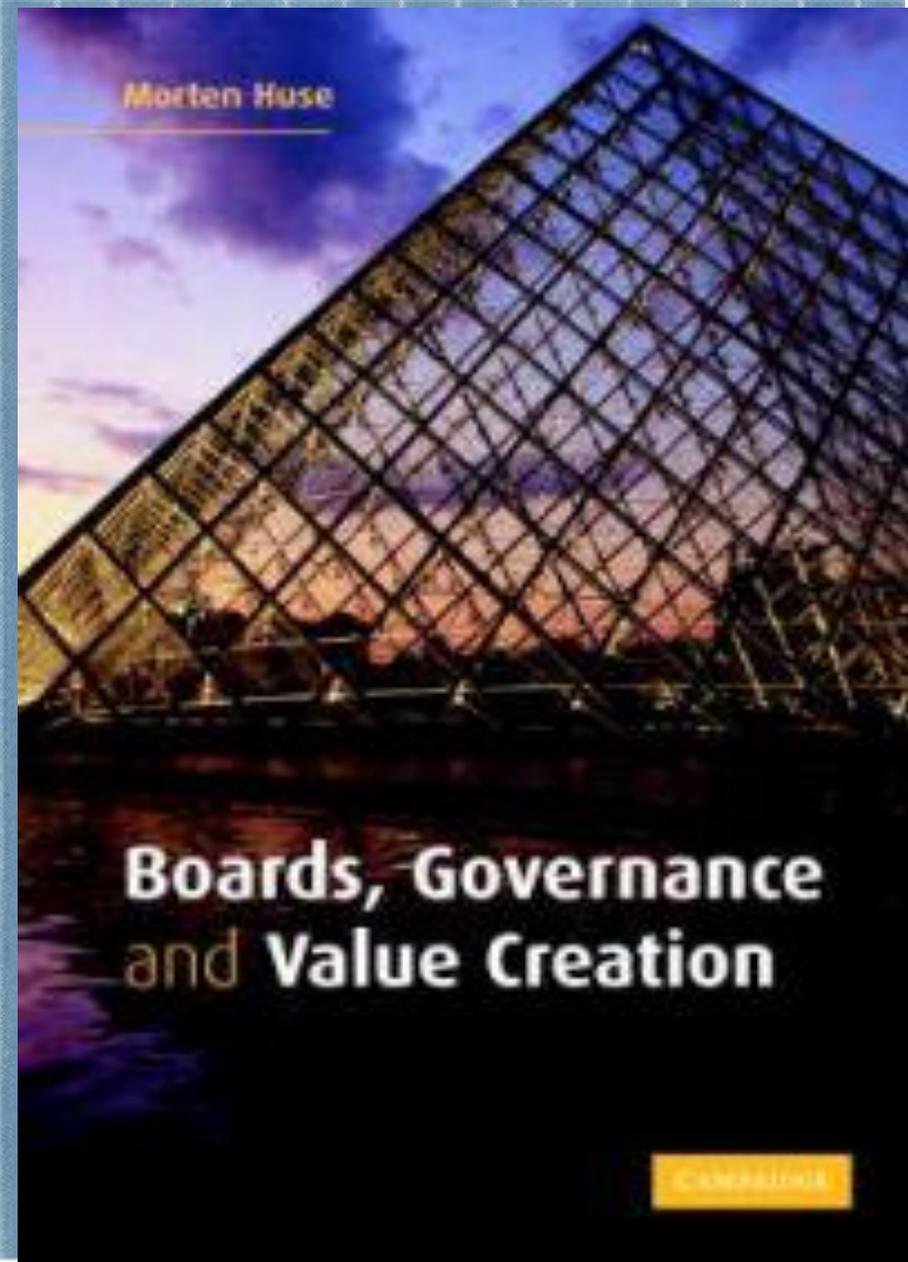


The Effects of the Financial Crisis on Corporate Governance

Morten Huse

Bergamo March 23rd 2011

www.boardsandwine.net



Corporate Governance and the Financial Crisis

- “**Excessive stockholder power** is precisely what caused the **short-term fixation** that led to the current financial crisis. ...The real investors are mostly professional money managers who are focused on the short term.“It is these shareholders who pushed companies to generate returns at levels that were **not sustainable**. ...The pressure to produce unrealistic profit fueled increased risk-taking.“Thoughtful observers of corporate governance have recognized the direct causal relationship between the financial meltdown and the short-term focus that drove **reckless risk-taking**.”
- – *Martin Lipton, Jay W. Lorsch and Theodore N. Mirvis, Schumer’s Shareholder Bill Misses the Mark, Wall St. Journal, May 12, 2009.*

Boards, Governance and Value Creation

- Why are boards of directors, corporate governance and value creation hot topics in the public debates?
- Who are the main actors in corporate governance?
- What is corporate governance?
 - Is there a best way of corporate governance?
 - Waves of shareholder activism
 - Defining corporate governance
 - Defining value creation



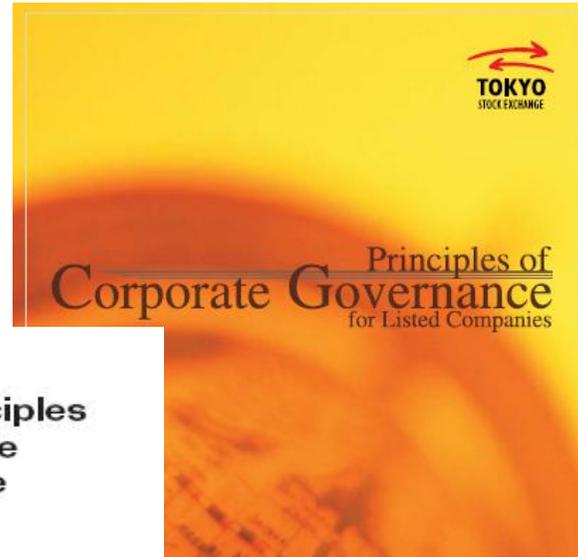
Deutscher Corporate Governance Kodex

in der Fassung vom 21. Mai 2003

Final NYSE

Corporate Governance Rules

What follows are the final corporate governance rules of the New York Stock Exchange approved by the SEC on November 4, 2003, other than Section 303A.08, which was filed separately and approved by the SEC on June 30, 2003. These final rules will be codified in Section 303A of the NYSE's Listed Company Manual.



THE

FINANCIAL ASPECTS

OF

CORPORATE GOVERNANCE

1 DECEMBER 1992

The Dutch corporate governance code

Principles of good corporate governance
and
best practice provisions

"WHAT IS CORPORATE GOVERNANCE AND WHAT IS A BOARD?"

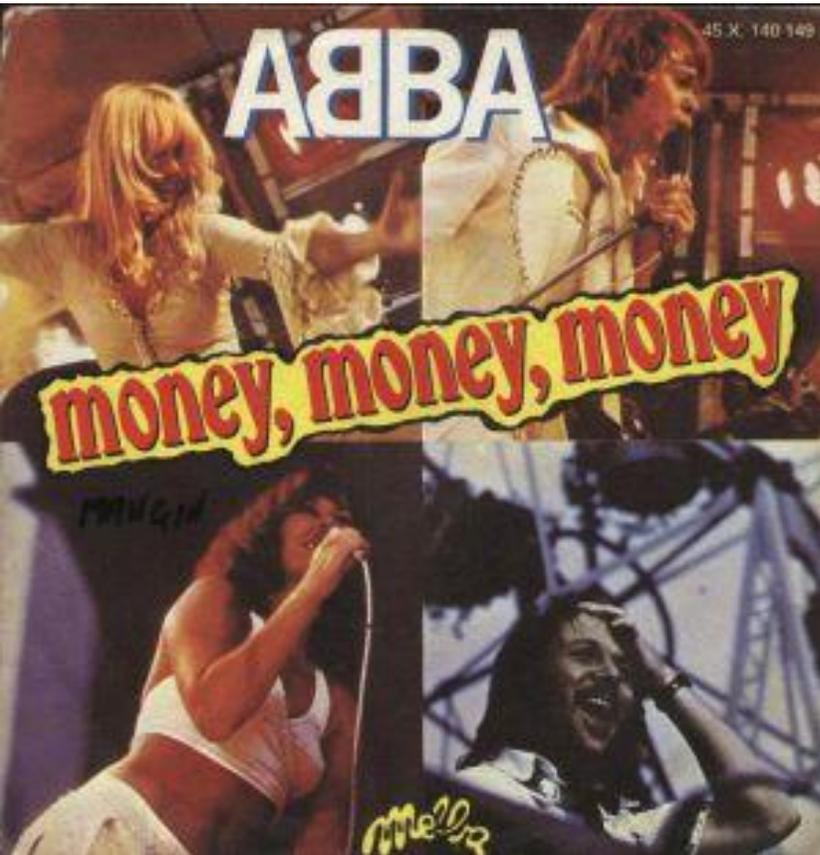


CORPORATE GOVERNANCE AND VALUE CREATION



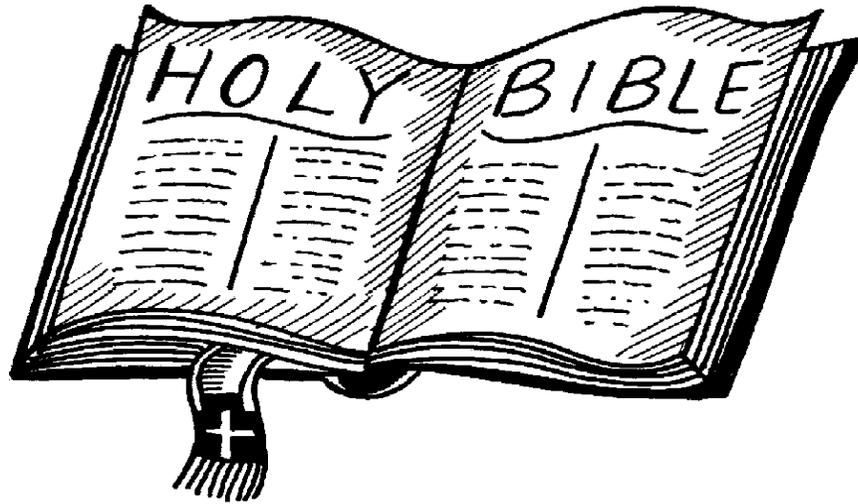
Internal and external sustainability	Unitary perspectives Discrete and short term	Balancing perspectives Sustainability - long term
External perspectives Value distribution and protection	Shareholder definition Shareholder supremacy Finance literature	Stakeholder definition Triangulation Law and society literature
Internal perspectives Value creation	Managerial/individ. def. Circumventing stakeholder control Management literature	Firm definition Value creation through the whole value chain Strategy and entr literature

ABBA and the Financial Crisis



- ABBA
 - "Money, money, money"
 - "Winner takes it all"

The Bible in Corporate Governance



- Agency theory and the Bible
 - "Man as a sinner"
 - "Sermon on the mount"
 - "The letters in the New testament"
 - Lessons from Jesus and the Mormon Church –the Board

Understanding the history



- What happened before the Bible?
- Skyrocketing remuneration and company jets
- The US welfare state
- Faceless and heartless owners
- The Godfather
- Enron; Sarbanes Oxley and Kofi Annan
- Alternatives to ABBA
- The New Economy

Waves of shareholder activism



"Clan boards":

And the next point on the agenda is as usual the compulsory Retirement age for the board members. I expect that you agree with me that it should be raised with one year

Consequences of "Good" Corporate Governance

– Calculations of board members

External pressure and liability

- + Identity of board members
- + Experience and knowledge
- + Time used by board members
- + Visibility

= Value destruction



– It is more likely that boards will hinder innovation and destroy values than create value:

The drama: The Un-Easy Marriage

Entrepreneurial Behavior Boards of Directors



- Risk taking
- Innovation
- Knowledge focused
- Seeing possibilities
- Bottom-up approach
 - Process-oriented
 - Open source and user- driven
- Long term value creation



- Risk averse
- Control
- Finance focused
- Avoiding problems
- Top-down approach
 - Decision-oriented
 - Hierarchy driven
- Short term value distribution

Developing a Value Creating and Innovative Board Culture

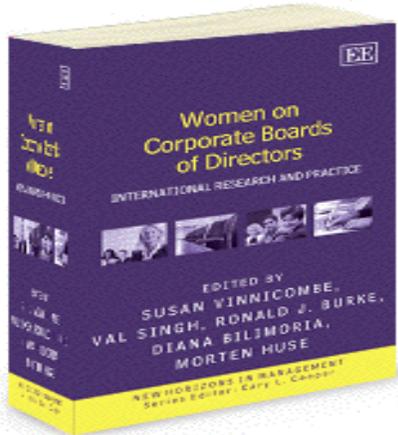
	Decision-oriented	Process-oriented
Tasks	Ratifying/Control	Developing/collaboration
Attributes	Independence	Criticality, creativity, cohesiveness, openness, involvement
Time spent by board members	Little time Fast – short meetings,	Much time Slow – long meetings,
Board composition	Homogeneous	Heterogeneous
Board-management relations	Distance, Distrust, Vicious circles	Closeness, Trust, Virtuous circles
Outcome	Pre-determined – short term	Open – long term

Board members –who are they?



- Competence, characteristics, compensation and composition
 - What is the ideal number of board members?
 - Requirements
- The debate about women directors
 - Societal case, business case, individual case
- Role of employee-elected directors
- "International" directors
- Selecting board members
- What is motivating board members?
 - The identities of board members

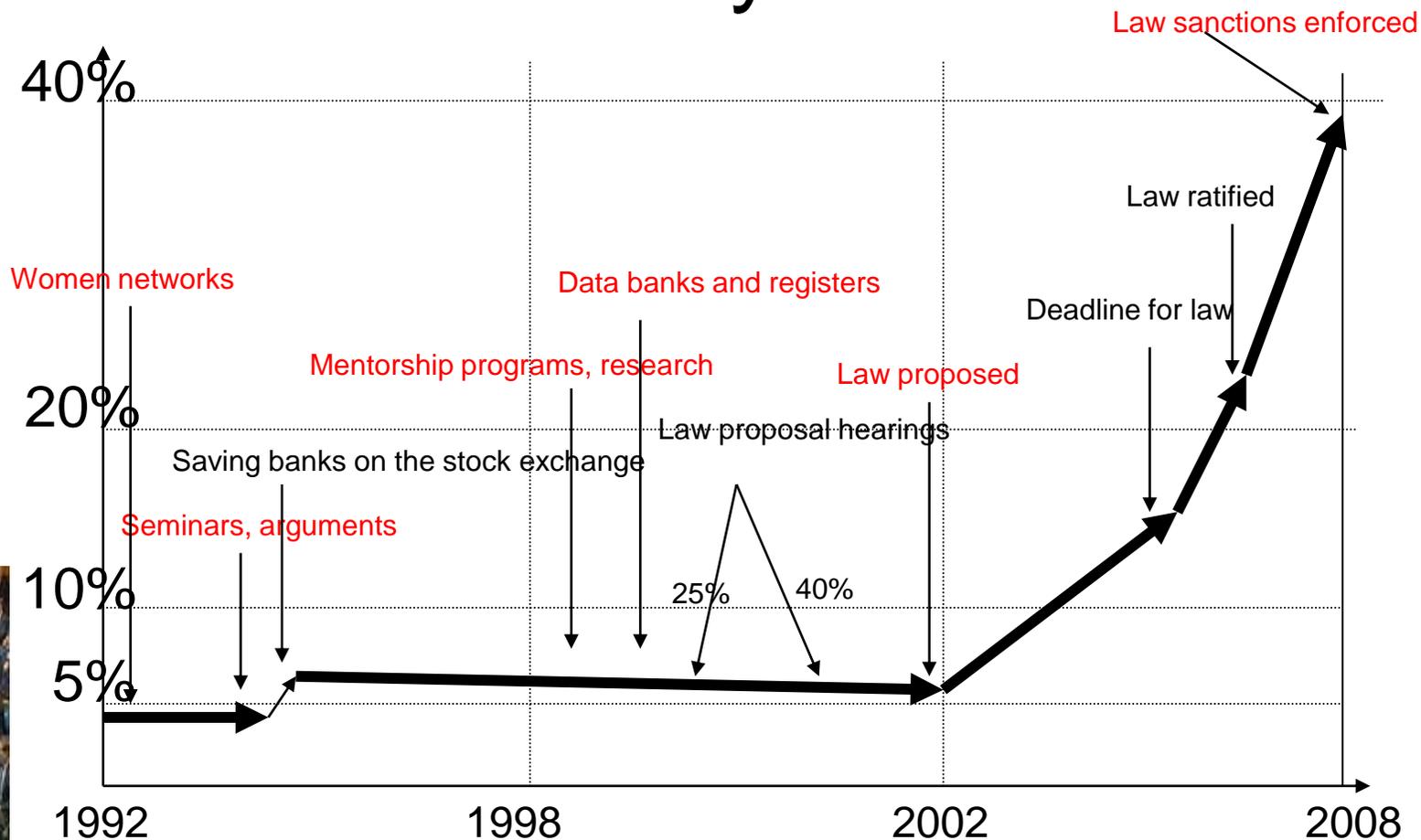
WOMEN ON BOARDS



- The Societal Case
 - Power balance
 - Democracy/Conventions
- The Individual Case
 - Tokenism
 - Glass ceiling
 - Career
- The Business Case
 - Diversity
 - Competence
 - Critical mass



The case of women directors in Norway





ROI of WOB - Two different discussions: Which discussion has contributed the most?



CG Codes and Sarbanes Oxley	Women quota
Independence	Competence
Value distribution	Value creation
Decision-oriented	Process-oriented
Control	Innovation
Finance literature	Strategy literature
Shareholder identification	Firm identification
Short term	Long term



Corporate Governance Ethics

- Managerial ethics
- Board member ethics
- Board ethics
- Corporate ethics
 - Ethical dilemmas
- Theory and system ethics

Parmalat scandal highlights fraud concerns

A massive financial scandal involving Italy's largest food company, Parmalat, has underscored the fact that corporate fraud is not just an American problem. With the disappearance of more than \$10 billion in declared assets, the scandal is not only one of the largest in corporate history, but it also calls into question how accounting practices, both foreign and domestic, may have contributed to the company's downfall.

Related Results

[7 more detained in Parmalat fraud](#)

[Italian prosecutors formally ask for indictments in Parmalat fraud](#)

[Italy's Parmalat accused of fraud, faces SEC suit](#)

[Parmalat sues Citigroup in fraud, settles with SEC.](#)

In December, it was discovered that Parmalat had been using its assets to offset more than a decade's worth of liabilities through a network of offshore and foreign finance companies. The problem, however, was that these assets did not exist. What followed was a comedy of errors as company representatives scrambled to account for the missing assets. A document from the Bank of America that was supposed to confirm the presence of a valid account containing more than \$4 billion was instead determined to be a forgery. A Parmalat representative then claimed to have traced \$7.7 billion to another Bank of America account, but a resulting search by the bank's representatives determined that this account, too, did not exist. This money, like Parmalat's entire profit history, may prove to be a product of the imagination.

New perspectives on corporate governance

- The worldwide economic crisis that erupted in 2008 and deepened in 2009 is challenging a host of our conceptions and theories of effective corporate governance. This is a call to prepare a paper for a conference on corporate governance prior to, during, and in the aftermath of the global financial crisis. We are particularly interested in "new perspectives" on how to reform the corporate governance system nationally, regionally, or globally. The best papers from the conference will be published in a subsequent special issue of *Corporate Governance: An International Review (CGIR)*.

