



# **Corporate Governance in Australia**

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# Corporate Governance in Australia

- In the beginning
- Link between corporate failure and poor corporate governance
- ACSI
- Remuneration Report
- Corporate Governance and E&S

# The Beginning

- Late 1980's – Allan Bond et al
- Establishment of AIMA
- AIMA Corporate Governance Guidelines
- Corporate Governance International (CGI)

## 1990's

- A number of cases where there was significant loss of shareholder value:
  - BHP
  - Burns Philp
  - Davids Holdings
- A pattern was emerging
  - Lack of independent directors with specific industry skills
  - Remuneration disclosure
  - Audit issues

# International Corporate Governance Network

- Established in 1995
- Global membership comprises more than 500 leaders in corporate governance including professionals, corporations, policy makers and institutional investors with capital under management in excess of \$US 10 trillion
- Strong participation by Australians on the various committees
- 2009 Conference will be in Sydney in July

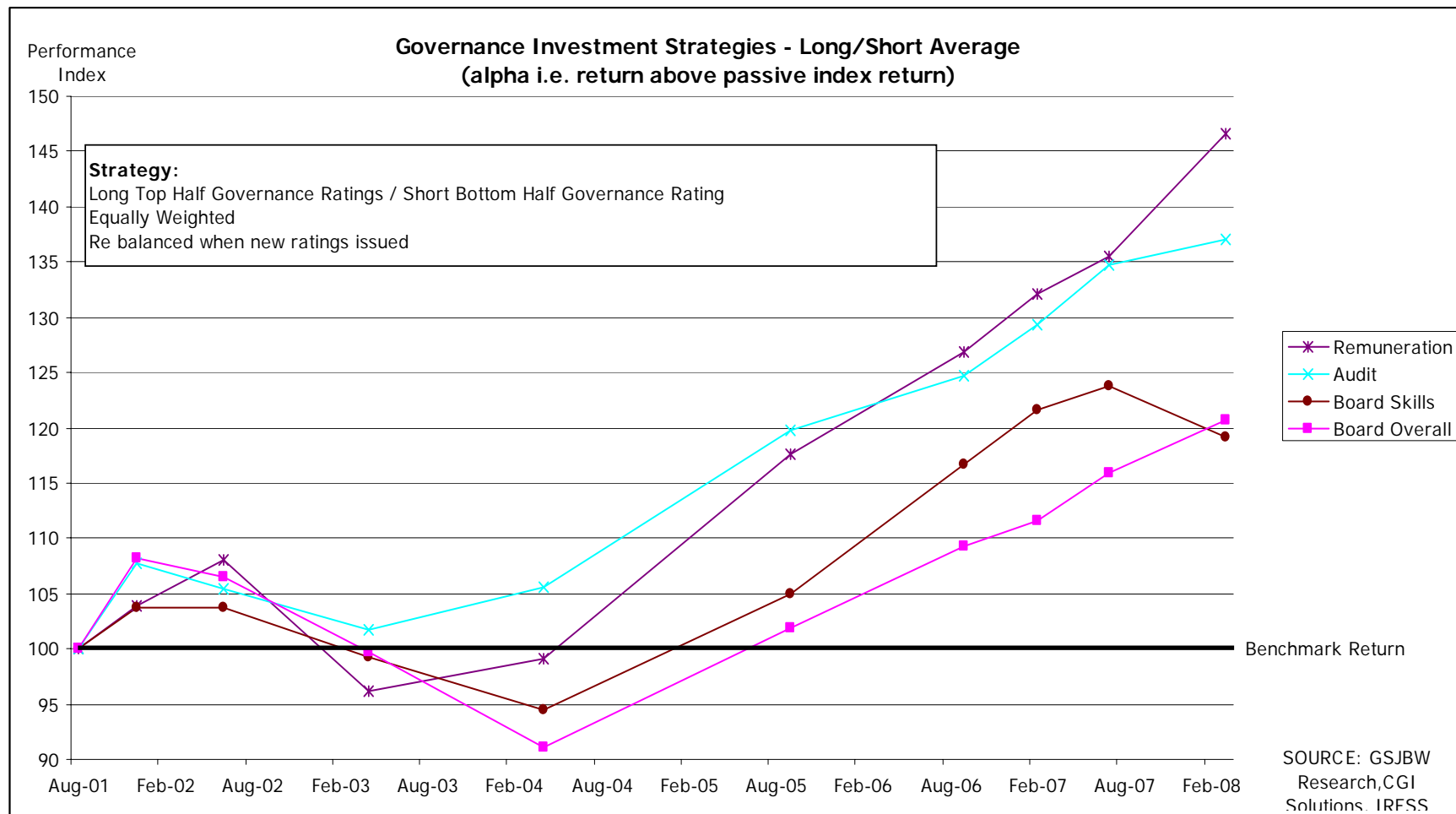
# The Big Corporate Collapses

- Australia
  - HIH
  - OneTel
  - Sons of Gwalia
- US
  - Enron
  - Worldcom

# Corporate Governance Ratings

- There was a commonality in the Australian corporate governance features which were lacking
- These features included:
  - Board and committee structures
  - Audit issues
  - Related party transactions
  - Disclosure and structure of remuneration

# GSJBW Research



# The Dot Com Companies

- Complete disregard for corporate governance standards – New Economy Entities
- How many of them survived?
- Significant losses for shareholders
- Most had a corporate governance rating of either 0 or 1

## ACSI

- Australian Council of Super Investors was established in 2001
- At this time voting levels were around 32%
- ACSI through its members put pressure on fund managers to vote their shares
- Today voting levels are in excess of 50%

# Remuneration Report

- Increased disclosure of remuneration policies
- Institutional shareholders are prepared to use their vote to send a message to the Company

## Environmental and Social Issues

- ACSI has released guidelines
- ACSI members are putting pressure on fund managers to report how they take ES&G issues into account
- Similar process to the increased focus by fund managers on corporate governance issues

## Environmental and Social Issues

- You need to get the Board right
- Boards need to be aware of E&S issues
- Companies need to lift their game in respect of reporting to stakeholders on E&S issues
- Specialist engagement firms eg Regnan
- Ratings research

# Examples of poor G and E&S

## ■ James Hardie

- 2006 rating was 2, improved to a 3 – issue for a widely held company
- Chairman also chaired the nomination and remuneration committees
- Move to a jurisdiction with lower governance standards
- Poor succession planning
- Appointment of a key advisor to the Board

## ■ Gunns

- Rating 1
- Combined Chair/CEO
- Previously also chaired the nomination committee
- Exhibited a closed approach to governance by not addressing issues raised in shareholder proposals

## ■ AWB

- 2006 – 2008 rating was 0, will be re-rated following changes to constitution and board
- Poor governance structure entrenched in the constitution

## How can good ESG research help?

- Should highlight potential risks for investors
- Investors should take up these issues with the companies concerned
- Voting can be an effective communication tool but has limitations
- Company dialogue is possibly more effective

# American International Group

- Combined chairman/CEO
- 8 out of 15 board members had a withheld vote of more than 15% (3 > 20%). Glass Lewis recommendations were to Withhold votes for 5 directors
- Significant past accounting restatements
  - 2000 – 2003
  - First three quarters of 2004
  - In November 2005 it restated 2002, 2003 and 2004 along with selected financial data for 2000 and 2001, a quarterly restatement for 2004 and the first three quarters of 2005
- Glass Lewis had made recommendations to vote Against the external auditors
  - Went to tender for a new audit firm, reappointed the incumbent audit firm
- Issues with related party transactions

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