

Corporate Governance

Small and Medium-Sized Business

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1. Corporate Governance

= Set of standards and rules that define the relationships between the executive management of a company and its statutory bodies and shareholders.

Involves defining the structure through which a company's goals are established, the means for achieving them, and the method for measuring their success.

2. Division according to the subject of interest

- ▶ Division according to whose interests the company's management should primarily prioritize.
- ▶ These are two basic and often contradictory approaches:
 - ▶ Shareholder approach
 - ▶ Stakeholder approach

Shareholder approach

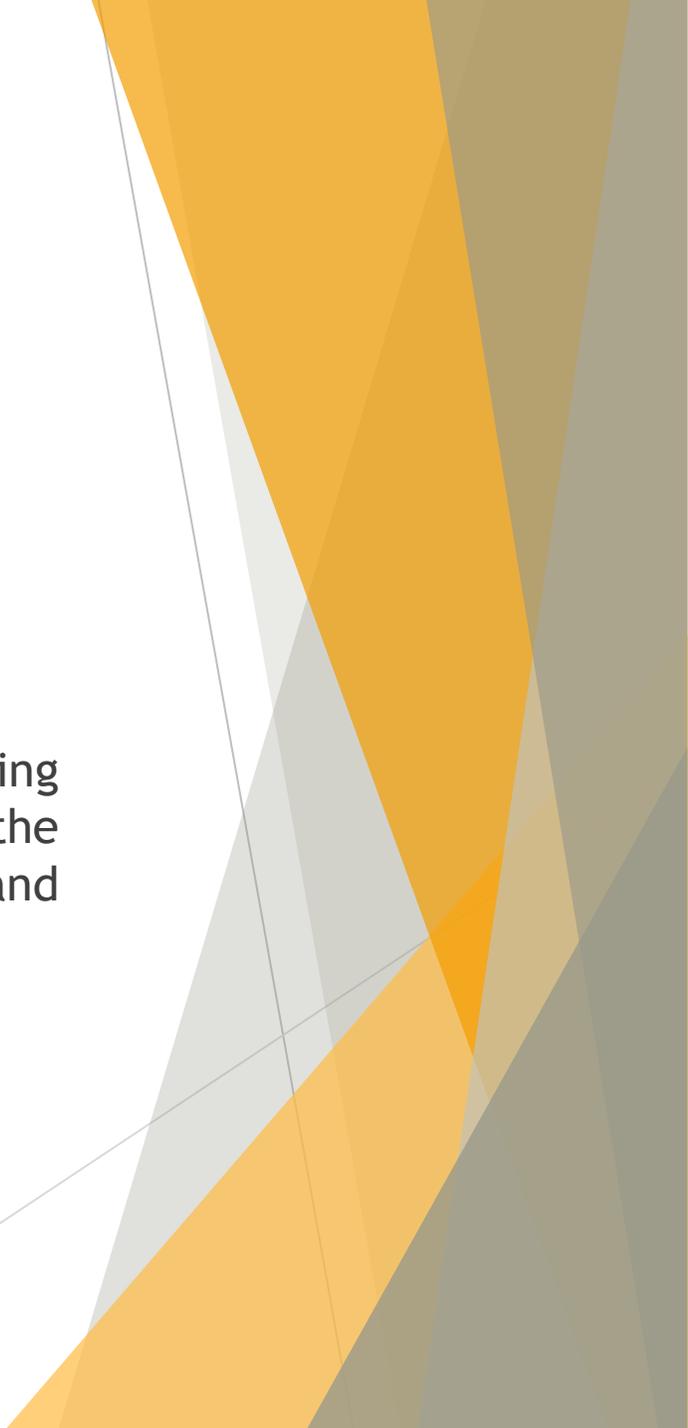
- ▶ A shareholder is someone who owns part of a company (shares).
- ▶ It sees the company as a place where invest their money and expect a certain return for it.
- ▶ The company's management has a primary obligation to act in a way that increases and price.

Shareholder approach

- ▶ Basic idea:
 - ▶ Because shareholders take on the most risk (their returns are uncertain), they should be the first in line to have their interests served.
- ▶ Basic rule:
 - ▶ If shareholders prosper, the entire economy prospers.
- ▶ This approach is typical for USA and Great Britain.

Stakeholder approach

- ▶ It does not see shareholders as the sole group whose interests the company should satisfy but emphasizes all stakeholders, such as , creditors,, the local community, or the
- ▶ The company's goal should be to fulfill the interests of all these individuals to ensure long-term sustainability and stability.
- ▶ This approach is typical for continental Europe and Japan.

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- ▶ Currently, more and more companies, including in the USA, are moving towards a Stakeholder Approach because they realize that ignoring the interests of employees or the community can lead to long-term problems and a decrease in the value of the company.

3. Models of corporate governance

- ▶ Single level model - this model is characteristic of Anglo-American countries (e.g. USA, Great Britain).
- ▶ Two level model - this model is traditional for Germany, Austria, Czech Republic.

Single level model

- ▶ This model is characterized by a large number of shareholders who participate in the profit, administration and management of the company.
- ▶ In addition to the general assembly, this model has a governing body, namely the
- ▶ The board of directors consists of the company's executive directors and experts invited from outside the company.
- ▶ The board of directors is headed by the general director (CEO).

Single level model

- ▶ The main activities of the board of directors:
 - ▶ Supervises the company's activities
 - ▶ Manages important company decisions
 - ▶ Promotes the interests of the owners.
 - ▶ Appoints and dismisses the general director (CEO).
 - ▶ Establishes an executive committee, which essentially manages the company.

Two level model

- ▶ This model strictly separates management from control.
- ▶ This means that in addition to the general assembly, it has two other governing bodies:
 - ▶ **The board of directors**, which is composed of executive and non-executive members.
 - ▶ **The supervisory board**, which is composed of shareholders and independent members, employee representatives.

Two level model

The Board of Directors is responsible for:

- ▶ the company's operational activities.
- ▶ Prepares variants of strategic plans.
- ▶ Ensures the implementation of strategic plans.

▶ The Supervisory Board is responsible for:

- ▶ Approves draft strategic plans.
- ▶ Defends the interests of the owners.
- ▶ Controls the company's finances.
- ▶ Elects and dismisses members of the board of directors and the company's general director (CEO).

4. Area of interest in corporate governance

Protect of shareholder's rights

Role of governance bodies

Role of top management

Role of the market and the role of the state

Role of interest groups

Corporate social responsibility

Measurement of business performance

4.1 Protection of shareholder's rights

- ▶ Provides them with access to important information
- ▶ Enables them to vote at the general assembly
- ▶ Protects of minority shareholders
- ▶ Monitors compliance with ethics and accountability of management
- ▶ Ensures risk management and establishes internal control systems
- ▶ Creates and implements policies and standards

4.2 Role of governance bodies

- ▶ Clearly defines powers and responsibilities
- ▶ Ensures that key decisions are made by unbiased individuals
- ▶ Ensures a diverse composition of governing bodies
- ▶ Ensures the publication of transparent information
- ▶ Ensures compliance with rules, laws and internal regulations
- ▶ Ensures good leadership

4.3 Role of top management

- ▶ The primary role is to implement the approved strategy and manage the company on a day-to-day basis.
- ▶ Basic role of management:
 - ▶ proposes employee salaries,
 - ▶ provides performance reviews,
 - ▶ ensures compliance with workplace ethics,
 - ▶ ensures compliance with social responsibility,
 - ▶ ensures stability and continuity.

4.4 Role of the market and the role of the state

- ▶ Role of the market:
- ▶ Customers are increasingly taking into account ethical and sustainable behavior of companies.
- ▶ Investors value a company based on trust.
- ▶ Good relationships with suppliers, buyers, and customers are the foundation.
- ▶ Increasing emphasis on the environmental and social impacts of companies.

4.4 Role of the market and the role of the state

- ▶ Role of the state:
- ▶ Controls compliance with legal regulations
- ▶ Controls compliance with regulations

4.6 Role of interest groups

- ▶ Protect shareholder interests
- ▶ Ensure compliance with corporate social responsibility
- ▶ Ensure transparency and accountability
- ▶ Involve interest groups

4.8 Measurement of business performance

- ▶ Defines goals and strategy
- ▶ Ensures transparency
- ▶ Determines management responsibility
- ▶ Monitors and measures performance

5. Current trends in Corporate governance

- ▶ ESG oversight
- ▶ AI and Digital governance
- ▶ Diversity and inclusion
- ▶ Shareholder activism
- ▶ Regulatory compliance