

# Corporate Governance

## What to Look For:

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## Disclaimer:

- Any company mentioned in this presentation is for the purpose of making an educational point not to recommend a buy or sell on that stock.

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## Board Independence

- Who's on the Board?
- How many are outsiders? Insiders?
  - Average is 77% outsiders, 23% insiders
  - Only connection to company should be board service
    - (No commercial relationships, real estate deals, legal fees or consulting contracts)
    - Family relationships, Interlocking directorships ( When CEO's serve on each others boards)
    - Does Board meet periodically w/o CEO present?
    - Is there a Lead Director who can call directors together w/o CEO permission?

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## Audit Committee

- Must be independent directors
- Must have at least 3 financially literate members
  - One accounting and financial expert
- Has any member ever worked at an audit accounting firm?

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## Board Commitment

- Should meet minimum four times a year
  - And preferably more often
- Did members attend at least 90% of the meetings?
  - Proxy statement must list directors who attended less than 75% of scheduled meetings
  - Council of Institutional Investors (CII) recommends maximum 5 boards one person can properly serve

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## Board Size

- Average Board is 11 members
- CII recommends between 5 and 15

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## Board Compensation

- 2013 – Median Total Compensation---\$181K
  - combination of cash, stock, meeting fees, etc.
- Watch for extreme variations from median
- Portion of compensation should be in stock

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## Board Perks

- Only 6% of S&P 500 companies offer director retirement plans
- Retirement plan for directors should be in proxy – BEWARE!!!
- No-No's
  - Meetings at posh resorts
  - Sweetheart deals
  - Company jets
  - Philanthropic contributions to pet causes

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## Succession Planning

- Choosing the CEO is Board's most important duty
- Carefully read Board's description of CEO duties
- Look cautiously at company whose Board doesn't take active role in succession planning

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## Executive Pay

- How is executive compensation determined?
  - Does compensation committee use clear, performance-driven standards for CEO pay?
- Stock Options?
  - Principle that performance is tied to share price is good.
  - If paid too many, it waters down share price.
  - Remember that it is shareholders money!

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## Board Elections

- About 60% have staggered terms
- Annual elections give shareholders more control

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## Poison Pills

- Make it easier for present management to retain control
- Prevent shareholders and market from disciplining management by getting rid of it

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## Where to Find: Annual Proxy statement

- [www.calpers-governance.org](http://www.calpers-governance.org) for Calpers Focus List of companies with poor governance
- [www.sec.gov](http://www.sec.gov) for documents
- [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com) overall resource on CEO contracts, pay, director independence, and other issues
- [www.iss.cda.com](http://www.iss.cda.com) Web site of Institutional Shareholder Services, a proxy monitoring organization that recommends how its clients (major investment firms) should vote

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## (Continued)

- [www.cii.org](http://www.cii.org) which represents pension and mutual funds
- [www.tiaa-cref.org](http://www.tiaa-cref.org) draws up a list of poor performing companies only after it has worked behind the scenes to get change
- [www.aflcio.org/paywatch](http://www.aflcio.org/paywatch) has handy executive compensation worksheet in addition to much info

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## Source:

- Levitt, Arthur: “Take on the Street” P. 223-235
- Pantheon, ISBN 0-375-42178-5

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• Do we have any Questions?  
Thank you.

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