

A Review of Corporate Governance Practices Globally

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The recently published [OECD Corporate Governance Factbook](#) examines the governance landscape across all 34 OECD member countries, with detailed charts and links by subject matter for given jurisdictions. The degree of ownership concentration is an essential element for consideration in framing corporate governance standards for companies. While the U.S., U.K. and Australia have dispersed structures, most OECD countries have controlling shareholders, such as family or state ownership, at their listed companies, with a few countries (Canada, Germany and Japan) having a mixed structure.

In terms of legal and regulatory regimes, the U.S. is one of only three jurisdictions, along with India and Saudi Arabia, with corporate governance issues covered by either laws or regulations instead of national codes or principles under a "comply or explain" model. In the EU countries and 10 others, the comply or explain approach is prevalent although enforcement is uncertain, as less than half of the jurisdictions with this system have formal mechanisms to regularly review company disclosure.

In addition to a two-tier board structure separating supervisory and management functions, three countries (Italy, Japan and Portugal) have an additional statutory body mainly for audit purposes. Five jurisdictions in Europe, along with Japan, require or recommend annual elections for board member, although the norm is a three-year elected term. Almost all jurisdictions require or recommend a minimum number or ratio of independent directors, mostly seeking a composition of at least half the board, with four jurisdictions (Chile, France, Israel and the U.S.) permitting companies with controlling shareholders to follow less stringent requirements. Only a quarter of jurisdictions with one-tier board systems encourage the separation of the board chair and CEO into two positions, and only EU countries require employee representation on the board, ranging from one member to 50% of the board.

Audit committees are recognized as a key component of effective governance, with more than two-thirds of studied jurisdictions requiring an independent audit committee and 28 jurisdictions making the committee responsible for oversight of risk management. However, only five jurisdictions mandate nomination committees and only eight dictate compensation committees, while other countries merely recommend their formation. This belies the focus on executive compensation, as a majority of jurisdictions have specific requirements such as long-term (2 to 3 years) incentive designs and severance caps of 6 to 24 months. India and Saudi Arabia have a maximum limit that total pay should not exceed a set percentage of net profits. Various forms of say-on-pay votes exist and one-third require or recommend a binding approval.

In those jurisdictions where shareholders have a right to call a meeting, the vast majority impose a minimum ownership threshold of five to 10% generally. Many also have a similar ownership requirement for placing items on a meeting agenda. Unlike the U.S., most jurisdictions do not provide a regulatory voting framework for board elections, and while the majority advocate cumulative voting, it is not widely adopted when the option is voluntary.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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