

# GUIDING PRINCIPLES OF CORPORATE GOVERNANCE

The following guiding principles reflect a compendium of viewpoints from the sources cited in the *References* section. Individual quotations and citations are not provided since the intention is to create a summarized set of viewpoints from multiple sources. Prescriptive solutions have not been proposed since corporate governance does not allow for a “one size fits all” approach and companies will need to find their own best practices based on the company’s age, size, complexity, extent of international operations, etc. Companies should seek legal advice before implementing specific corporate governance policies and procedures to ensure compliance with applicable laws and regulations, including securities exchange listing requirements.

**DEFINITION** Corporate governance is the overarching set of policies, procedures, and relationships that enable an organization to establish objectives, set ethical boundaries to the acceptable means with which those objectives will be met, monitor the achievement of objectives, reward successful achievements, and discipline unsuccessful or inappropriate attempts to meet objectives, in order to keep the organization aligned with the needs and interests of its primary stakeholders.

- 1** Effective corporate governance requires regular and constructive interaction among key stakeholders, the board, management, internal audit, legal counsel, and external audit and other advisors.
- 2** The board should ensure that key stakeholders are identified and, where appropriate, stakeholder feedback is regularly solicited to evaluate whether corporate policies meet key stakeholders’ needs and expectations.
  - Key stakeholders can change over time, and as such, boards should ensure processes are in place to regularly monitor the identification of key stakeholders.
  - Key stakeholders are those who have a material impact on corporate operations, or on whom the corporate operations have a material impact.
  - Stakeholders can be external or internal and include communities affected by the company’s operations, creditors, customers, employees, regulators, shareholders, suppliers, etc.
  - When evaluating business success, the company should also evaluate their social and environmental impact and determine whether it aligns with corporate objectives and the interests of key stakeholders.
- 3** Board members should act in the best interest of the company and the shareholders while balancing the interests of other key external and internal stakeholders.
  - The board should exhibit sufficient independence and objectivity in fact and appearance. There should be a clear form of leadership for the board that is distinct from management. Each board member should employ healthy skepticism in meeting his or her responsibilities and be willing to challenge the CEO and other board members constructively.
  - Board members should exhibit high integrity and competence, and provide diverse perspectives in terms of industry expertise, technical expertise, culture, and thought.
  - Board members should exhibit a commitment of time and active involvement, including preparation for and direct participation in appropriate board, committee, and shareholder meetings. They should be informed on relevant issues, particularly those involving potential or existing crises, and be available to consult with management, as needed.
  - Board members should receive ongoing education and training to perform their responsibilities, including areas of emerging risk to the company.
  - Board members should be compensated in a way that encourages alignment with key stakeholder interests.
  - Executive sessions should be held regularly and often, as they are critical in establishing an appropriate environment of objectivity and candor. These sessions should include independent directors and those outside directors who do not qualify as independent, but exclude members of management.
  - The board should undergo regular, robust evaluations and, as needed, members should be rotated (including leadership positions within the board) to ensure a balance of company-specific knowledge and new perspectives. Effective board evaluations should lead to improved governance and corporate outcomes.
  - Shareholders should have fair opportunities to nominate and regularly vote on the retention of board members.

- 4** The board should ensure that the company maintains a sustainable strategy focused on long-term performance and value. This includes:
- Defining corporate objectives and approving long-term strategic goals.
  - Evaluating risks, including reputational risks, and seeking to balance risk and reward after considering all relevant stakeholders.
  - Designing management compensation to align with long-term strategic goals, regularly evaluating performance of the CEO, and overseeing management succession planning.
  - Ensuring that all employees receive adequate training and are compensated in a way that encourages achievement of corporate objectives.
- 5** The board should ensure that the culture of the company is healthy, regularly monitor and evaluate the company's core culture and values, assess the integrity and ethics of senior management, and, as needed, intervene to correct misaligned corporate objectives and culture.
- 6** The board should ensure that structures and practices exist and are well-governed so that it receives timely, complete, relevant, accurate, and reliable information to perform its oversight effectively.
- Each board member should have unrestricted access to management, as needed, to fulfill their responsibilities.
  - Board members have a responsibility to protect the confidentiality of non-public information.
- 7** The board should ensure that corporate disclosures are consistently transparent and accurate, and in compliance with legal requirements, regulatory expectations, and ethical norms.
- The board should ensure that an independent committee (an Audit Committee or equivalent) with appropriate expertise is responsible for oversight of both internal and external auditors. Internal audit should have direct and unfiltered access to this committee; should be adequately resourced; and its purpose, authority, and responsibility should be formally defined and consistent with the *International Standards for the Professional Practice of Internal Auditing*.
  - The board should oversee the company's assessment of the risk of fraud specifically and ensure that adequate controls are in place to detect and deter fraud.
  - The board should have in place processes for employees or other stakeholders to report suspected fraud or misconduct to independent members of the board without fear of retaliation.
- 8** Companies should be purposeful and transparent in choosing and describing their key policies and procedures related to corporate governance to allow key stakeholders an opportunity to evaluate whether the chosen policies and procedures are optimal for the specific company.
- The board should ensure that the company regularly evaluates the full system of corporate governance to ensure that individual components are operating as expected, and that all components operate in a cohesive manner to achieve corporate objectives.
  - The board should ensure that corporate governance evaluations encourage the reporting of potential deficiencies at all levels, including within the board, without fear of retaliation.
  - The board should ensure that the company addresses any deficiencies in a timely manner.

## REFERENCES

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