Corporate Governance Concepts Worksheet

Trent Rhodes

Corporate Governance Concepts Worksheet

Concept	Application of Concept in the Scenario	Reference to Concept in Reading
Audit Committee	CEO Hugh McBride's business practices describe a methodology that neglects the use of an audit committee. The scenario provides the reader with a sequence of E-mail correspondence between the chief executive and members of executive management; this communication illicit a high degree of secrecy, with many of the messages titling "confidential." The author of this document presumes there was concern over the accessibility of this information being disseminated to other parties. As chief executive, McBride heads the overall strategic direction of the company. In addition to this position, the organizational chart reveals his leadership roles as CFO and President. He aspires to develop a Board of Directors and establish himself as Chairman. Consolidation of these command positions by one individual gives rise to a strong need for a committee to provide oversight over operations.	"Although review and discussion of the MD&A, earnings press releases, and earnings guidance is not required of NASDAQ companies, audit committees should monitor all financial information communicated to the public to ensure that investors are not receiving misleading information" (The CPA Journal, 2004, p. 22).
Corporate Governance	Huge McBride's philosophy of leadership illustrates the need for clear, disclosed corporate governance practices. McBride's Internet site provides the strategic goals of the company, with a developed website offering customers ease of understanding and swift application processing. The Intranet, however, demonstrates in-depth the sacrifice of long-term customer well-being for the speed of application processing and financial growth.	"More generally, the capital markets disciplined managers who had ignored shareholders for the benefit of themselves and other stakeholders. As we discuss below, the incentive and governance features of LBOs are particularly representative of the discipline that the capital markets imposed" (Chew, 2005, p. 74).

Executive Compensation	A confidential E-mail was sent to Betty W. regarding the application of incentive plans. The brief correspondence included a brief declarative by Hugh McBride, who determined there was no need to provide stock options. Potentially a tactic to protect his and his partner Larry's wealth accumulation, Hugh also ensured he would not provide the Board with stock option as well. To compensate for this, he decided to provide salaries deemed fair.	"Second, the primary effect of the large shift to equity-based compensation has been to align the interests of CEOs and their management teams with shareholders' interests to a much greater extent than in the past. Large stock option grants fundamentally changed the mind-set of CEOs and made them much more receptive to value-increasing transactions" (Chew, 2005, p. 75).
Board of Directors	In an E-mail to Betty W. and Beth B. regarding the developing relationship between Beltway and McBride, Hugh explained his expectation of persuading the chosen Board candidates to join his organization. Cracking ethical bounds, he delegated the responsibility of generating exaggerated biographical information about the candidates to both of his employees. The purpose of these methods was to create a great image of these members to win the investment support of Beltway. He additionally left the work of sorting out governance practices for them.	"The evolution of boards from managerial rubber stamps to active and independent monitors has been in large part the result of efforts to address or avoid serious problems with corporate performance associated with managerial entrenchment" (Chew, 2005, p. 178).

Board Independence Metrics	In communication with his Board candidates, Hugh McBride laid the groundwork and expectations for how their engagement within the organization would take place. Contrary to metrics of Board independence, this group would be expected to remain with the organization in mere title rather than engage as active Board participants in the strategic direction for shareholder interests. Hugh explained he would establish himself as a Director of the Board; he would be the oversight of the Board of Directors and expected three to four meetings per year. Committees were explained to be unnecessary.	"The following are acceptable surrogates for direct observation of effective behavior by professional boards: - Independent board leadership, whether through a non-executive chair or a lead director, so that directors are able to act without relying solely on initiatives from a management chairman; - Periodic meetings, without management, of the independent directors to provide the opportunity for the directors to evaluate management against the strategic plan for corporate performance; and - Formal rules or guidelines establishing an independent relationship between the board and management" (Chew, 2005, p. 182).

References

Chew, D.H. (2005). *Corporate Governance at the Crossroads*. New York: McGraw-Hill.

University of Phoenix. (2009). Week One Supplement: Audit Committee Responsibilities. Retrieved from University of Phoenix, MMPBL/570—Corporate Governance course website.