Corporate Governance for listed companies: **the Voice of Directors**

ecoDa, the European Confederation of Directors' Associations, acting as the European voice of Directors, has just submitted its response to the EU Green Paper on Corporate Governance for listed companies to the European Commission.

Some of the key points made in the submission include the following:
Both corporate governance and corporate social responsibility are key elements in building societal trust and in improving the sustainable competitiveness of the European business world. They should not be viewed as separate issues, but within an integrated policy framework.

Corporate governance practices should reflect the size and complexity of individual companies. Smaller listed companies and unlisted companies are likely to require a different type of corporate governance regime to large listed companies. Proportionality is a key component of good governance.

The Comply or Explain approach to corporate governance – in relation to national corporate governance codes – should be retained as a key feature of the European corporate governance landscape. The Green Paper rightly observes that comply or explain could work better in certain instances, particularly in relation to the quality of company explanations and shareholder engagement. However, notwithstanding these issues, comply or explain is far preferable to a corporate governance regime which embeds mandatory governance requirements into legislation. The Commission is advised not to follow this route. Governance flexibility and plurality are preferable to a legalistic, box-ticking approach.

Diversity in board membership is an important component of board effectiveness. Companies should disclose their diversity policies, both in terms of gender and with respect to other dimensions of diversity. However, the issue of gender quotas should be determined at national level, reflecting the political context of individual EU member states.

Two major contributors to board effectiveness in the future will be the greater use of external board evaluations and improved board training. Both offer the potential to significantly improve the performance of directors and/or supervisory board members in the fulfilment of their board-level responsibilities.

Significant or reference shareholders continue to play a useful but underestimated role in European corporate governance. They often underpin companies in adopting a longer-term investment perspective. In contrast, greater thought must be given to the internal governance of institutional investors, whose diffuse shareholdings, short-term performance horizon and reliance on market trading can translate into weak corporate governance in their investee companies.

Minority shareholder protection – particularly the control of related party transactions – is still an issue of concern in certain EU member states. However, in most EU countries, encouraging institutional shareholders to fulfil their governance responsibilities is a more important objective than the granting of additional rights to minority shareholders.

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ecoDa response: http://www.ecoda.org/Position%20Papers.html
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