

Corporate Governance: The Basics

Corporate governance is an evolving topic that changes with the global equity markets and corporate practices. According to the Council of Institutional Investors (CII), corporate governance is the set of rules, customs, and practices that allocate responsibility among shareowners, the board of directors and management, and affect the way companies are managed. As a shareowner, corporate governance is a tool to hire, as well as motivate corporate managers to maximize return on invested capital (ROIC). For corporations, also known as issuers, corporate governance is a tool to manage their duty to shareowners and society.

Over the past three decades, corporate governance has become an important part of portfolio management. Moreover, governance is also incorporated into the investment decision process for institutional investors as an additional metric to detect fraud, waste, and abuse of those entrusted to carry out the duties of executive leadership of publicly traded companies. As illustrated with well-known companies such as Enron, Chesapeake Energy, and Olympus, governance failures can destroy shareowner value and decrease confidence in the capital markets.

As an additional layer of due diligence, practitioners of corporate governance actively seek ways to improve the performance of companies in their portfolio. The SBA is an active owner that works to ensure corporations in the SBA's portfolio are aware of instances in which they can improve Total Shareholder Return (TSR). There are several important themes in corporate governance that involve strong accountability and fiduciary duty for issuers, as well as shareowners. As a result, SBA staff always advocates for the implementation of guidelines and processes to ensure good corporate behavior to protect its beneficiaries.

SBA corporate governance activities often require proxy voting decisions of issuers includes the following:

- Shareowner Rights
- Executive Compensation
- Long-term Business Plans
- Mergers, Acquisitions, & Divestures
- Capitalization Structure
- Board Independence