Glossary

Agency theory One party (the principal) delegates work to another party (the agent). In a corporate scenario, the principal is the shareholder and the agent the directors/managers. Agency theory relates to the costs involved in this principal–agent relationship, including the costs of aligning the two sets of interests.

Audit The examination by an independent external auditor to determine whether the annual report and accounts have been appropriately prepared and give a true and fair view.

Audit committee A subcommittee of the board that is generally comprised of independent non-executive directors. It is the role of the audit committee to review the scope and outcome of the audit, and to try to ensure that the objectivity of the auditors is maintained.

Auditor rotation The audit firm is changed after a number of years in order to help ensure that the independence of the external auditor is retained. There are disparate views on the effectiveness of auditor rotation.

Bank-oriented system Banks play a key role in the funding of some companies and so may be able to exercise some control via the board structure, depending on the governance system.

Board diversity Gender, ethnicity, and other characteristics considered to make the board more diverse.

Board evaluation Boards should be evaluated annually to determine whether they have met the objectives set. The board as a whole, the board subcommittees, and individual directors should each be assessed.

Board subcommittees The board of directors may delegate various duties in specific areas to specialized committees, such as the audit committee, remuneration committee, and nomination committee.

Chair Responsible for the running of the board and chairing board meetings.

Chief executive officer Responsible for the running of the company.

Civil law Tends to be prescriptive and based on specific rules. Generally gives less protection to minority shareholders.

Co-determination The right of employees to be kept informed of the company's activities and to participate in decisions that may affect the workers.

Common law Based on legal principles supplemented by case law. Generally gives better protection to minority shareholders.

Comply or explain A company should comply with the appropriate corporate governance code but, if it cannot comply with any particular aspect of it, then it should explain why it is unable to do so.

Controlling shareholders Those who have control of the company, although this may be indirectly through their holdings in other entities, and not directly.

Corporate social responsibility Voluntary actions that a company may take in relation to the management of social, environmental, and ethical issues.

Directors' remuneration Can encompass various elements, including base salary, bonus, stock options, stock grants, pension, and other benefits.

Directors' share options Directors may be given the right to purchase shares at a specified price over a specified time period.

Dual board A dual board system consists of a supervisory board and an executive board of management.

Fiduciary duty This is an obligation to act in the best interests of another party, for example, directors have a fiduciary duty to act in the best interests of the shareholders.

Hard law Legally binding pronouncements such as laws, regulations, and directives.

Inclusive approach The company considers the interests of all of its stakeholders.

Independent directors who have no relationships with the business, or its directors and management, or other circumstances, which could affect their judgement.

Information asymmetries Different parties may have access to different levels of information, which may mean that some have a more complete or more accurate picture than others.

Insider system Ownership of shares is concentrated in individuals or a group of individuals, such as families or holding companies.

Institutional investors Generally large investors, such as pension funds, insurance companies, and mutual funds.

Internal controls Policies, procedures, and other measures in an organization that are designed to ensure that the assets are safeguarded, that systems operate as intended, that information can be produced in a timely and accurate manner, and that the business operates effectively and efficiently.

Market-oriented system The influence of banks does not tend to be prevalent and does not impact on the company's board structure.

Minority rights The rights of shareholders who own smaller stakes in a company. They should have the same rights as larger shareholders but often this is not the case.

Minority shareholders who have smaller holdings of shares.

Nominated advisor A firm or company that acts as an advisor to a company coming to/on the Alternative Investment Market.

Nomination committee A subcommittee of the board and should generally comprise independent non-executive directors. Its role is to make recommendations to the board on all new board appointments.

Non-executive director These are not full-time employees of the company (unlike most executive directors). As far as possible they should be independent and capable of exercising independent judgement in board decision-making.

Outsider system There is dispersed ownership of shares and hence individuals, or groups of individuals, do not tend to have direct control.

Pay ratio The ratio of the pay of the company's CEO to the pay of the average worker.

Private equity A private equity fund is broadly defined as one that invests in equity which is not traded publicly on a stock exchange.

Proxy vote The casting of shareholders' votes by shareholders, often by mail, fax, or electronic means.

Remuneration committee A subcommittee of the board and should generally comprise independent non-executive directors. Its role is to make recommendations to the board on executive directors' remuneration.

Risk assessment An assessment of the overall risk that a company may be exposed to. Overall risk can include many different types of risk, including financial risk, operating risk, and reputation risk.

Say on pay Shareholder vote on the remuneration packages of executive directors, may be binding or non-binding on the company.

Shareholder value The value of the firm after deducting current and future claims.

Socially responsible investment Involves considering the ethical, social, and environmental performance of companies selected for investment as well as their financial performance.

Soft law Best practice or self-regulation pronouncements such as codes, principles, and guidelines.

Sovereign wealth fund A fund, often very large and influential, which is owned by a government.

Stakeholder theory This theory takes into account the views of a wider stakeholder group and not just the shareholders.

Stakeholders Any individual or group on which the activities of the company have an impact, including the employees, customers, and local community.

Supervisory board In a dual board system the supervisory board oversees the direction of the business, whilst the management board is responsible for the running of the business.

Transaction cost economics Views the firm itself as a governance structure, which in turn can help align the interests of directors and shareholders.

Unitary board A unitary board of directors is characterized by one single board comprising of both executive and non-executive directors.