



29 August 2008

## ‘Two speed approach’ to Corporate Governance revealed

### ASX 201-300 falling behind the compliance levels of larger Australian firms

As the reporting season reaches its climax, research shows that more than half of the ASX 300 are still not fully observing Governance Principles, with the ASX 201-300 showing particular drift from best practice standards.

Grant Thornton’s 2008 Corporate Governance Reporting review tracks a clear gulf opening up between businesses at the top end of town, and smaller listed firms. High-profile disclosure issues dividing the ASX include the structure of the Board and the question of executive pay:

- 39% of the 201-300 segment did not have a majority of Independent Directors on the Board, compared to 17% of the Top 100.
- 43% of the 201-300 companies did not have an Independent Director as Chairperson. In comparison, 85% of the Top 100 firms were led by an Independent Chair.
- 21% of the 201-300 did not follow shareholder-approved thresholds when finalising equity-based executive remuneration. Only 6% of the Top 100 did not pay in accordance with shareholder-set ceilings.

Peter Moloney, Director - Business Risk Services at Grant Thornton, commented:

“This review spotlights areas where performances might be improved, ahead of the next reporting season. Robust corporate governance reporting needs to remain a key priority for listed companies across Australia, particularly for firms within the ASX Top 300.

“A ‘one size fits all’ approach to disclosure isn’t always practical, and we understand that smaller listed companies may not face the same operational issues as the larger caps. However, the ASX 201-300 members are still all sizeable enterprises, which makes it surprising that we should see such pronounced disparities when compared against the bigger listed companies. Mid-market firms need to take their disclosure seriously and ensure their processes are considered, or they could well face negative shareholder impact further down the line.”

While some companies provide good reasoning for why they haven’t followed the principles laid out by the ASX, Grant Thornton believes other companies are using the ‘if not, why not’ disclaimer as an ‘automatic get-out clause’, which gives no real sense of the alternative measures a business is taking to strengthen its procedures.

Moloney continues:

“Each company must ensure it has the processes in place to proactively and transparently disclose its activities to investors. From the review we’ve conducted, we believe that some organisations are still reporting by rote, rather than reporting in order to act and address areas of concern.”

Even where the ASX’s principles have been met, the report states that many compliance statements lack commercial bite, with companies signing up to recommendations in principle rather than practice. One area of particular concern is risk management: only three quarters (73%) of the ASX 201-300 businesses assessed were able to verify that their financial statements were founded on a sound and effective system of risk management and internal compliance. Peter Moloney responds:

“Treating risk management as an ‘add on’ rather than a critical component of business planning could create problems in the future, and leave firms vulnerable to shareholder dissatisfaction and ultimate loss of capital. Disclosures need to track how the Board has spent time and resource on embedding risk management right at the heart of a company’s activities, to give assurance that the directors have reflected sufficiently on how to unlock and protect shareholder value.”

- ends -

**For further information or interviews with Peter Moloney, please contact:**

Jenna Frost or Ben Findlay  
Horizon Communication Group  
Ph. 02 8572 5625 / 02 8572 5600  
E [jenna@horizoncommunication.com.au](mailto:jenna@horizoncommunication.com.au) / [ben@horizoncommunication.com.au](mailto:ben@horizoncommunication.com.au)

**Notes to editors:**

**About the Corporate Governance Review 2008**

Grant Thornton analysed the 2007 annual report disclosures made by 290 of the ASX top 300 companies, against the Principles of Good Corporate Governance and Best Practice Recommendations (“The Governance Principles”) used by the ASX Corporate Governance Council, to assess corporate governance levels and trends across the largest listed Australian firms.

The findings follow the ASX’s own review in June, which gave an overall benchmark of compliance levels against its Governance Principles (90.5%), but did not offer a detailed snapshot of reporting against individual recommendations.

According to Grant Thornton 2008 Corporate Governance reporting review, only 45% of companies in the top 300 implemented all of the Governance Principles in their 2007 annual report disclosures.

The 10 principles that were in effect for the period covered by this review are:

**1. Lay solid foundations for management and oversight**

Recognise and publish the respective roles and responsibilities of Board and management.

**2. Structure the Board to add value**

Have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

**3. Promote ethical and responsible decision-making**

Actively promote ethical and responsible decision-making.

**4. Safeguard integrity in financial reporting**

Have a structure to independently verify and safeguard the integrity of the company's financial reporting.

**5. Make timely and balanced disclosure**

Promote timely and balanced disclosure of all material matters concerning the company.

**6. Respect the rights of shareholders**

Respect the rights of shareholders and facilitate the effective exercise of those rights.

**7. Recognise and manage risk**

Establish a sound system of risk oversight and management and internal control.

**8. Encourage enhanced performance**

Fairly review and actively encourage enhanced Board and management effectiveness.

**9. Remunerate fairly and responsibly**

Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

**10. Recognise the legitimate interests of stakeholders**

Recognise legal and other obligations to all legitimate stakeholders.

**About Grant Thornton Australia**

From market-leading services for the owners of private businesses, to audit, to insolvency and capital markets services for corporations, and to innovative taxation and wealth management services for individuals, Grant Thornton in Australia helps business owners achieve success and realise their ambitions.