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## **Corporate Governance. Case Studies**

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# CORPORATE GOVERNANCE.CASE STUDIES

EDUARDO G. MANUEL<sup>1</sup>

## ABSTRACT

This paper pretends to do a theoretical approach of Corporate Governance, having as support some case studies about companies like Coca-Cola, Nokia, Microsoft, and Amazon.com.

The methodology adopted for this work is based in information from these companies available in their websites and annual reports.

I concluded that both companies show the corporate governance components according to their core business and their environmental business.

**Keywords:** Corporate Governance

JEL Codes: A23, M10, M14, M19

Working Paper Series

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## INTRODUCTION

This paper pretends to do a theoretical approach of Corporate Governance, having as support some case studies about companies like Coca-Cola, Nokia, Microsoft, and Amazon.com.

The methodology for this work is based in information from these companies available in their websites and annual reports.

## THEORETICAL APPROACH OF CORPORATE GOVERNANCE

The term “corporate governance”, according to Farinha (2004) is relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer, at least since Berle and Means (1932) and the even earlier Smith (1776).

According to Cadbury Report, **Corporate Governance** is “the system by which companies are directed and controlled (Keasey, *et al*, 2005). Furthermore, Cadbury recognised that a system of good corporate governance allows boards of directors to be “free to drive their companies forward”, but exercise that freedom within a framework of effective accountability.

Johnson, Scholes, *et al* (2005) consider that the **governance framework** describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided, and this concerns how an organization should function and the distribution of power among different stakeholders. These authors consider that corporate governance has become an increasingly important issue for organizations for two main reasons:

- 1) The need to separate ownership and management control of organizations (which is now the norm except with very small business), means that most organizations operate within a hierarchy, or chain, of governance, and this chain represents all those groups that have influence on an organization’s purposes

through their direct involvement in either ownership or management of an organization. The details of the chain will vary from one organization to another; the figure 1.3 illustrates a typical chain of governance for a publicly quoted company in the United Kingdom.

- 2) There has been an increasing tendency to make organizations more visibly accountable and/or responsive, not only to those “owners” and “managers” in the governance chain, but to a wider range of stakeholders – including the community at large.

## CASE STUDIES

### 1.4.1. Coca-cola case

The Coca-Cola Company is committed to sound principles of corporate governance.

The Board is elected by the shareowners to oversee their interest in the long-term health and the overall success of the business and its financial strength. The Board serves as the ultimate decision making body of the Company, except for those matters reserved to or shared with the shareowners. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company.

## EXECUTIVE OFFICERS AND DIRECTORS OF THE COMPANY

Board of Executive Officers of the Company	
Alexander B. Cummings President, Africa Group and a member of the	J. Alexander M. Douglas Senior Vice-President and Chief Customer

**CORPORATE GOVERNANCE.CASE STUDIES**

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Company's Executive	Officer of the Company and a member of the Company's Executive Committee
Gary P. Fayard Executive Vice-President and Chief Financial Officer of the Company and a member of the Company's Executive Committee	Irial Finan Executive Vice-President of the Company and President, Bottling Investments and a member of the Company's Executive Committee
E. Neville Isdell Chairman of the Board of Directors and Chief Executive Officer of the Company and Chairman of the Company's Executive Committee	Glenn G. Jordan President, East, South Asia and Pacific Rim Group and a member of the Executive Committee
Geoffrey J. Kelly Senior Vice-President and General Counsel of the Company and a member of the Company's Executive Committee	Muhtar Kent Executive Vice-President of the Company, President, Coca-Cola International and President, North Asia, Eurasia and Middle East Group and a member of the Company's Executive Committee
Donald R. Knauss President, North America and a member of the Company's Executive Committee	Thomas G. Mattia Senior Vice-President of the Company and Director of Worldwide Public Affairs and Communications and a member of the Company's Executive Committee
Cynthia P. McCague Senior Vice-President of the Company and Director of Human Resources and a member of the Company's Executive Committee	Mary E. Minnick Executive Vice-President of the Company and President, Marketing, Strategy and Innovation and a member of the Company's Executive Committee
Dominique Reiniche President, European Union Group and a member of the Company's Executive Committee	José Octavio Reyes President, the Latin America Group and a member of the Company's Executive Committee
Danny L. Stickland Senior Vice-President and Chief Innovation/Research and Development Officer of the Company and a member of the Company's Executive Committee	

*Source:* Coca-Cola Company

**DIRECTORS**

<b>Board of Officers and Directors</b>	
E. Neville Isdell Chairman, Board of Directors, Chief Executive Officer and a Director (Principal Executive Officer)	Ronald W. Allen Director
Gary P. Fayard Executive Vice-President and Chief Financial Officer (Principal Financial Officer)	Catheelen P. Black Director
Connie D. McDaniel Vice-President and Controller (Principal Accounting Officer)	Warren E. Buffett Director
Herbert A. Allen Director	Barry Diller Director
Donald R. Keough Director	J. Pedro Reinhard Director
Maria Elena Lagomasino Director	James D. Robinson III Director
Donald F. Mchenry Director	Peter V. Ueberroth Director
Sam Nunn Director	James B. Williams Director

*Source:* Coca-Cola Company

**1.4.2. Amazon.com case****Nominating and Corporate Governance Committee Charter****Organization and Membership**

This charter governs the operations of the Nominating and Corporate Governance Committee (the "Committee") of the Board of Directors of Amazon.com, Inc. (the "Board"). The Committee is appointed by the Board and consists of at least two Directors, each of whom will meet Nasdaq Stock Market, Inc. ("NASDAQ") requirements with respect to independence as determined by the Board. The Committee reviews this charter periodically and recommends appropriate changes to the Board.

### **Statement of Purpose**

The purpose of the Committee is to:

- Review and assess the composition of the Board,
- Assist in identifying potential new candidates for Director,
- Recommend candidates for election as Directors, and
- Provide a leadership role with respect to corporate governance of the Company.

Among its specific duties and responsibilities, the Committee performs the following, to the extent it deems necessary and appropriate, consistent with and subject to applicable laws, as well as rules and regulations promulgated by the SEC, NASDAQ or other regulatory authorities.

### **Review and Assess the Composition of the Board**

1. The Committee recommends to the Board assignments of committee members and chairs for each committee.
2. The Committee reviews the qualifications of Directors for continued service on the Board.
3. The Committee assists the Board in the annual CEO and Director self-evaluations.

### **Assist in Identifying Potential New Candidates for Director**



4. The Committee develops and recommends to the Board criteria to identify and evaluate prospective candidates for Director.
5. The Committee develops and periodically reviews the policy for Director candidates recommended by the Company's shareholders.
6. The Committee identifies and reviews the qualifications of candidates for Director.

#### **Recommend Candidates for Election as Directors**

7. The Committee recommends to the Board candidates for election or reelection as Directors at each annual meeting of stockholders and recommends candidates to be elected by the Board as necessary to fill vacancies and newly created Directorships.

#### **Provide a Leadership Role with Respect to Corporate Governance of the Company**

8. The Committee periodically considers, and reports to the Board on, general corporate governance matters.
9. The Committee develops and periodically reviews the Corporate Governance Guidelines and recommends changes to the Board.

The Committee recommends compensation for newly-elected Directors and reviews Director compensation as necessary.

#### **Code of Business Conduct and Ethics**

Amazon.com employees should always act lawfully, ethically, and in the best interests of Amazon.com. This Code of Business Conduct and Ethics (the "Code of Conduct") sets out basic guiding principles. Employees who are unsure whether their conduct or the conduct of their coworkers complies with the Code of Conduct should contact their manager or the Legal Department. Employees may also report any

suspected noncompliance to the Legal Department or to the Amazon.com Ethics Line referred to in paragraph IX below.

### **I. Compliance with Laws, Rules and Regulations**

Employees must follow applicable laws, rules and regulations at all times. Employees with questions about the applicability or interpretation of any law, rule or regulation, should contact the Legal Department.

### **II. Conflicts of Interest**

Employees are expected to use their judgment to act, at all times and in all ways, in the best interests of Amazon.com. A "conflict of interest" exists when an employee's personal interest interferes with the best interests of Amazon.com. For example, a conflict of interest may occur when an employee or a family member receives a personal benefit as a result of the employee's position with Amazon.com. A conflict of interest may also arise from an employee's business or personal relationship with a customer, supplier, competitor, business partner, or other employee, if that relationship impairs the employee's objective business judgment.

Because an employee's receipt of gifts or services could create a conflict of interest, the Legal Department will develop and maintain guidelines for disclosure of gifts or services received from customers, suppliers, competitors or business partners.

Employees should attempt to avoid conflicts of interest and employees who believe a conflict of interest may exist should promptly notify the Legal Department. The Legal Department will consider the facts and circumstances of the situation to decide whether corrective or mitigating action is appropriate.

### **III. Insider Trading Policy**

Federal and state laws prohibit trading in securities by persons who have material information that is not generally known or available to the public.

Employees of the Company may not a) trade in stock or other securities while in possession of material nonpublic information or b) pass on material nonpublic information to others without express authorization by the Company or recommend to others that they trade in stock or other securities based on material nonpublic information.

The Company has adopted guidelines designed to implement this policy. All employees are expected to review and follow the Amazon.com Insider Trading Guidelines. Certain employees must comply with trading windows and/or preclearance requirements when they trade Amazon.com securities.

#### **IV. Discrimination and Harassment**

Amazon.com provides equal opportunity in all aspects of employment and will not tolerate any illegal discrimination or harassment of any kind. For more information, see the Amazon.com policies on Equal Employment Opportunity and Workplace Harassment in the Amazon.com Owner's Manual.

#### **V. Health and Safety**

Amazon.com provides a clean, safe and healthy work environment. Each employee has responsibility for maintaining a safe and healthy workplace by following safety and health rules and practices and reporting accidents, injuries and unsafe conditions, procedures, or behaviors.

Violence and threatening behavior are not permitted. Employees must report to work in a condition to perform their duties, free from the influence of illegal drugs or alcohol.

## **VI. Price Fixing**

Employees may not discuss prices or make any formal or informal agreement with any competitor regarding prices, discounts, business terms, or the market segments and channels in which the Company competes, where the purpose or result of such discussion or agreement would be inconsistent with applicable antitrust laws. If you have any questions about this section or the applicable antitrust laws, please contact the Legal Department.

## **VII. Payments to Government Personnel**

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. Employees may not make illegal payments to government officials. Employees who are conducting business with the government officials of hLfo (L)6Entmrntpa650(m)-1 0 0 rg   n   977ntrs

b) believe that a violation of the Code of Conduct has or is about to occur or c) when in doubt about how to properly act in a particular situation.

Employees may also raise questions or report suspected violations of the Code of Conduct through the Amazon.com Ethics Line. Calls to the Ethics Line are answered by an independent third party and may be anonymous upon request.

Amazon.com will not allow retaliation against an employee for reporting misconduct by others in good faith. Employees must cooperate in internal investigations of potential or alleged misconduct.

Employees who violate the Code of Conduct will be subject to disciplinary action up to and including discharge.

#### **X. Periodic Certification**

The Legal Department will designate certain employees who, based on their level of responsibility or the nature of their work, will be required to certify periodically that they have read, understand and complied with the Code of Conduct.

#### **XI. Board of Directors**

With respect to their service on behalf of the Company, Amazon.com's Board of Directors must comply with the relevant provisions of this Code of Conduct, including conflicts of interest, insider trading and compliance with all applicable laws, rules and regulations.

#### **XII. Waivers**

Waivers of this Code of Conduct may be made only in a manner permitted by law.

### **OFFICERS & DIRECTORS**

## Officers

Jeffrey P. Bezos

President, Chief Executive Officer and  
Chairman of the Board

Rick Dalzell

Senior Vice President, Worldwide Architecture  
& Platform Software, and Chief Information  
Officer

Mark S. Peek

Vice President, Chief Accounting Officer

Diego Piacentini

Senior Vice President, Worldwide Retail &  
Marketing

Kal Raman

Senior Vice President, Worldwide Hardlines  
Retail

Tom Szkutak

Senior Vice President and Chief Financial  
Officer

Jeff Wilke

Senior Vice President, Worldwide Operations

Michelle Wilson

Senior Vice President, General Counsel,  
Secretary

## Directors

Jeffrey P. Bezos

President, Chief Executive Officer and Chairman  
of the Board  
Amazon.com

Tom A. Alberg

Madrona Venture Group

John Seely Brown

Visiting Scholar, Annenberg Center at USC

L. John Doerr

Kleiner Perkins Caulfield & Byers

William B. (Bing) Gordon

Electronic Arts, Inc.

Myrtle Potter

Genentech, Inc.

Thomas O. Ryder

Reader's Digest Association, Inc.

Patricia Q. Stonesifer

Bill and Melinda Gates Foundation

### 1.4.3. Microsoft Case

## CORPORATE GOVERNANCE AT MICROSOFT CORPORATION

Corporate governance at Microsoft serves several purposes:

To establish and preserve management accountability to Microsoft's owners by appropriately distributing rights and responsibilities among Microsoft Board members, managers, and shareholders.

To provide a structure through which management and the Board set and attain objectives and monitor performance.

To strengthen and safeguard their culture of business integrity and responsible business practices.

To encourage the efficient use of resources, and to require accountability for their stewardship of those resources.

## ROLE OF THE BOARD OF DIRECTORS

Shareholders elect the Board of Directors to oversee management and to assure that shareholder long-term interests are served. Through oversight, review, and counsel, the Board of Directors establishes and promotes Microsoft's business and organizational objectives. The Board oversees the company's business affairs and integrity, works with management to determine the company's mission and long-term strategy, performs the annual CEO evaluation, oversees CEO succession planning, establishes internal controls over financial reporting, and assesses company risks and strategies for risk mitigation.

## BOARD OF DIRECTORS

<b>Board of Directors</b>	
<b><u>Steven A. Ballmer</u></b>	Chief Executive Officer, <i>Microsoft Corporation</i>
<b><u>James I. Cash Jr., Ph.D.</u></b>	Former James E. Robison Professor, <i>Harvard Business School</i>
<b><u>Dina Dublon</u></b>	Former Chief Financial Officer, <i>JPMorgan Chase</i>
<b><u>William H. Gates III</u></b>	Chairman, <i>Microsoft Corporation</i>

<b>Board of Directors</b>	
<b><u>Raymond V. Gilmartin</u></b>	Former Chairman, President and Chief Executive Officer, <i>Merck &amp; Co., Inc.</i>
<b><u>Ann McLaughlin Korologos</u></b>	Chairman, <i>RAND Corporation</i> ; Chairman Emeritus, <i>The Aspen Institute</i> ; Senior Advisor, <i>Benedetto, Gartland &amp; Co. Inc.</i>
<b><u>David F. Marquardt</u></b>	General Partner, <i>August Capital</i>
<b><u>Charles H. Noski</u></b>	Former Vice Chairman, <i>AT&amp;T Corporation</i>
<b><u>Dr. Helmut Panke</u></b>	Former Chairman of the Board of Management, <i>BMW AG</i>
<b><u>Jon A. Shirley</u></b>	Former President and Chief Operating Officer, <i>Microsoft Corporation</i>

*Source:* Microsoft

## **BOARD COMMITTEES**

The Board has five committees: an Antitrust Compliance Committee, an Audit Committee, a Compensation Committee, Governance and Nominating Committee, and a Finance Committee. Each committee is led by, and is composed solely of, independent directors. Each committee is responsible for the review and oversight of company activities in the areas designated in its charter.

### **1.4.4. Nokia case**

Pursuant to the provisions of the Finnish Companies Act and our articles of association, the control and management of Nokia is divided among the shareholders in a general meeting, the Board of Directors and the Group Executive Board. Our Articles of Association provide for a Group Executive Board, which is responsible for the operative management of Nokia. The Chairman and the members of the Group Executive Board are elected by the Board of Directors. Only the Chairman of the Group



Executive Board can be a member of both the Board of Directors and the Group Executive Board.

### **Board of Directors**

The Board decides on matters that, in relation to the Group's activities, are significant in nature. Such matters include confirmation of the strategic guidelines, approval of the periodic plans and decisions on major investments and divestments. The Board appoints the CEO, the President, the Chairman and the members of Nokia's Group Executive Board. The Board also confirms the remuneration of the CEO and the President.

The roles and responsibilities of the Board and its committees are defined in the Corporate Governance Guidelines and the committee charters. The Board's committees consist of the Audit Committee, the Personnel Committee and the Corporate Governance and Nomination Committee. The Board regularly reviews these guidelines and charters in order to ensure that they appropriately comply with what the Board believes to be best practices of corporate governance. The Board and each of its committees conduct annual performance self-evaluations.

### **Group Executive Board**

Nokia's articles of association provide for a Group Executive Board, which is responsible for managing the operations of Nokia. The Chairman and the members of the Group Executive Board are elected by the Board of Directors. Only the Chairman of the Group Executive Board can be a member of both the Board of Directors and the Group Executive Board.

### **Annual General Meeting**

The shareholders of Nokia use their decision-making power in Nokia's general meetings. The Annual General Meeting is usually held in each March, April or May.

### **Auditor**

The auditor is elected annually by the Annual General Meeting. PricewaterhouseCoopers Oy was elected as the auditor for 2006 in the Annual General Meeting held on March 30, 2006.

### **Corporate Governance Practices**

Nokia follows rules and recommendations of the Helsinki, New York, Stockholm and Frankfurt stock exchanges, where applicable.

Nokia's corporate governance practices comply with the Corporate Governance Recommendation for Listed Companies approved by the Helsinki Exchanges in December 2003, effective as of July 1, 2004. The Recommendation recommends a company to describe the manner in which the internal audit function of the company is organized. As Nokia has comprehensive risk management and internal control processes in place, there is no separate internal audit function at Nokia.

Under the New York Stock Exchange's corporate governance listing standards, listed foreign private issuers, like Nokia, must disclose any significant ways in which their corporate governance practices differ from those followed by US domestic companies under the NYSE listing standards. There are no significant differences in the corporate governance practices followed by Nokia as compared to those followed by US domestic companies under the NYSE listing standards, except that Nokia follows the requirements of Finnish law with respect to the internal audit function and the approval of equity compensation plans. Under Finnish law, stock option plans require shareholder approval at the time of their launch. All other plans that include the delivery of company stock in the form of newly issued shares or treasury shares require shareholder approval at the time of the delivery of the shares or, if shareholder approval is granted through an authorization to the Board of Directors, not earlier than one year

in advance of the delivery of the shares. The NYSE listing standards require that equity compensation plans be approved

## **1.5. BUSINESS**

### **1.5.1. COCA-COLA CASE**

Coca-Cola is largest manufacturer, distributor and marketer of non-alcoholic beverage concentrates and syrups in the World. Its also manufacture, distribute and market some finished beverages. Along with Coca-Cola, which is recognized as the World's most valuable brand, it market four of the world's top five soft drink, brands, including Diet Coke, Fanta and Sprite.

### **1.5.2. AMAZON.COM CASE**

To provide the widest possible selection for their customers, Amazon.com has designed their websites to enable millions of unique products to be sold by their and by third parties across dozens of products categories such as:

- Apparel, shoes, and accessories; Baby care products; Beauty; Books; Camera and photography; Cell phones and service; Computers and computer add-ons; Consumer electronics; DVD's, including rentals and videos; Gourmet food; Health and personal care; Home garden, and outdoor living products; Jewelry and watches; Kitchenware and housewares; Magazine subscriptions; Music and musical instruments; Office products; Software; Sports and outdoors; Tools and hardware; Toys and video games.

### **1.5.3. Nokia Case**

Nokia comprises four business groups: **Mobile Phones; Multimedia; Enterprise Solutions and Networks.**

The Nokia's strategy continues to focus on three activities to expand mobile communications in terms of volume and value:

- Expand mobile voice;
- Drive consumer multimedia;
- Bring extended mobility to enterprises.

**Expand mobile voice:** Nokia can further develop the mobile voice market - both in markets where mobile telephony is just taking off as well as in more mature markets. Nokia estimates the number of mobile subscriptions to surpass three billion in 2008. Nokia's position in mobile voice is strong thanks to their key assets and excellent logistics capabilities.

**Drive consumer multimedia:** Nokia is playing a key role in shaping this emerging complex market by focusing on the fastest growth areas: imaging, music, and games, to name a few.

**Bring extended mobility to enterprises:** Nokia will provide a range of competitive, specifically targeted handsets, platforms, and connectivity solutions so enterprises can boost productivity through the power of mobility.

On January 1, 2004, Nokia restructured into four business groups – Mobile Phones, Multimedia, Enterprise Solutions, and Networks - to better focus and capitalize on the opportunities in each of these areas. Throughout all these, the Networks business group provides the infrastructure backbone and enables end-to-end communications.

### **Corporate Governance Practices**

Nokia follows rules and recommendations of the Helsinki, New York, Stockholm and Frankfurt stock exchanges, where applicable.

Nokia's corporate governance practices comply with the Corporate Governance Recommendation for Listed Companies approved by the Helsinki Exchanges in December 2003, effective as of July 1, 2004. The Recommendation recommends a company to describe the manner in which the internal audit function of the company is organized. As Nokia has comprehensive risk management and internal control processes in place, there is no separate internal audit function at Nokia.

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## **CONCLUSIONS**

I concluded that both companies show the corporate governance components according to their core business and their environmental business.

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