

Internet and Corporate Governance

Michał Grzybkowski
Jesus College, University of Oxford
Oxford OX1 3DW
michal.grzybkowski@jesus.oxon.org

Dariusz Wójcik
University College London, and
Jesus College, University of Oxford

Abstract:

In order to highlight the often-neglected significance of Internet in corporate governance, this paper offers a novel Internet Based Corporate Governance Rating, focusing on the disclosure of corporate governance on Internet and the use of Internet in corporate governance communication. The application of the Rating to the largest British and Polish corporations demonstrates that, while Polish companies generally lag behind the British firms, there are exceptions of Polish companies making a better use of Internet as a communication tool. Examples of good and bad practices are identified and a comparison of the IBCG Rating with conventional corporate governance ratings is presented, which underscores the distinctive character of the IBCG. Finally, the paper evaluates the limits of Internet use in corporate governance and discusses the implications of the results for the emergence of a global market for corporate governance as well as the processes of global financial integration.

Keywords: corporate governance, Internet, transparency, shareholder activism, rating

Introduction

The integration of European capital markets aims at dismantling barriers to cross-border investment and increasing the liquidity of markets, leading to more dispersed and internationally diversified corporate ownership structures. At the same time the major objective of corporate governance reform in Europe is to enable shareholders' participation in, and impact on, corporate decision-making. Few observers note, however, that (other things being equal) dispersed international ownership structures can make shareholders' activism, less, not more, likely. One example of this problem is falling attendance rates at annual general meetings of shareholders. This paper claims that the development of effective and efficient technologies to help shareholders overcome the lack of proximity to companies is an often neglected but crucial factor in further capital market integration and corporate governance reform in Europe. Specifically the objective of the paper is to explore the role of Internet as a technology that enhances transparency of corporate governance but also enables proper functioning of dispersed, international shareholding structures.

The contribution of the paper is twofold: methodological and empirical. From the methodological point of view, the paper introduces Internet Based Corporate Governance (IBCG) rating - a system for the evaluation of the use of Internet in the governance of companies. The design of the system is based on the OECD Principles of Corporate Governance, the experience of voluntary codes in Europe, as well as the methodologies of corporate governance rating agencies. The system encompasses criteria with regard to *Shareholders, Transparency, Board of Directors, Executive Management* and *Technical Accessibility*. One feature that distinguishes our method is the focus on how effectively Internet is used in corporate governance. What matters here is not only whether certain information is disclosed on Internet, but also how it is disclosed, and whether it allows further manipulation and processing. Beyond the substance and methods of disclosure, the paper also considers the use of Internet for other corporate governance practices including voting, shareholders' meetings, and board meetings.

While the paper argues the necessity of effective and efficient use of Internet in corporate governance, it also considers the limits of Internet use. Examples include failures to replace actual shareholders' meetings with virtual meetings, the use of Internet as a smokescreen for bad corporate governance practices, and the use of Internet as a quick and 'shallow' improvement of the corporate governance rating of a company. Finally, the paper offers some speculations on the future of Internet and corporate governance by discussing the feasibility of new technologies dedicated to automatic corporate governance data processing

that could provide a tool for instant comparisons and analysis, and enhance shareholders' activism.

The structure of the paper is as follows. We start by presenting the methodology of Internet Based Corporate Governance rating. The following chapter applies IBCG to rate the 20 largest British and Polish corporations. Next, the IBCG ratings of these companies are compared to their conventional corporate governance ratings. The final section summarizes our results and presents their implications as well as suggestions for future research.

Internet Based Corporate Governance Rating – methodology

The methodology of the Internet Based Corporate Governance Rating was constructed on a set of core guidelines concerning corporate governance and communication with shareholders, with the OECD Principles of Corporate Governance (2004) in the lead. The second important source were guidelines encompassing important aspects of interaction between corporate governance and Internet technologies published by the Institute of Chartered Secretaries and Administrators (ICSA, 2000). Constructing IBCG we also took into account the impact of the Electronic Communication Act of 2000 and related regulations (Freshers Bruckhaus Deringer, 2001). In addition, we reviewed the voluntary corporate governance codes of European countries. In particular, accounts from the German stock market and experiences in corporate governance were useful in the area of e-communication, but also because of similarities between German and Polish legal foundations, including the two-tier board system and similarities between voluntary corporate governance codes (Lattemann, 2005).

In order to construct our rating a detailed review of existing corporate governance ratings and relevant literature was undertaken, with particular attention paid to rating companies with global scope, including Governance Metrics International (GMI), Standard & Poors and the Institute of Shareholder Services (ISS) (Xanthakis and Tsipouri, 2004; Bradley, 2004; Strenger, 2004). The review of literature on ratings led us to the following conclusions. First, all available ratings aim at evaluating overall corporate governance. This is understandable, since at the basic level investors as users of ratings require information on whether a company has poor or good governance. The problem, however, is that the existing rating systems rely on assumptions about many aspects of corporate governance, the impact of which is far from proven conclusively by research. To give an example, typically rating systems consider any anti-takeover provisions as bad corporate governance, while research suggests that some protections can enhance the position of shareholders in the target

companies (Becht et al., 2003). As another example, the separation of CEO and the chairman of the board is considered a must, while again there is no conclusive research on the issue.

Another common problem of corporate governance rating systems is that while they consider transparency as a fundamental and obvious feature of good governance, their own rating methodology is far from transparent. A notable exception here is *The German Scorecard for Corporate Governance* (DVFA, 2000). As a response to these problems in this paper we offer a specialized – in contrast to conventional overall ratings – fully transparent rating based on the use of Internet as a tool of information and communication, and a building block of good corporate governance, which is beyond controversy. For example, we do not intend to evaluate whether the number of independent directors in a company is sufficient, but we evaluate whether a company discloses relevant information on board independence. In practice, while conducting the rating many rating agencies consider the lack of information on a given aspect of corporate governance as evidence of bad corporate governance. As a result, the users cannot be sure to what extent the rating reflects availability of information and to what extent it reflects genuinely bad corporate governance practices. The IBCG is free of these concerns.

On the basis of the review of relevant legislation, existing ratings and literature, the IBCG rating was constructed consisting of 120 criteria divided into five main categories: *Shareholders, Transparency, Board of Directors, Executive Management* and *Technical Accessibility*.

The *Shareholders* section of the IBCG covered three main subjects divided into sub-categories: the disclosure on *Rights and Obligations* such as the company statute and articles of association, shareholding structure, ownership principles and shareholders department; *Key Ownership Functions* consisting of voting procedures and annual general meetings. The last part of *Shareholders* section covered *Equitable Treatment* issues like equal access to information, interactive participation in AGM and shareholder notification tools. Within *Transparency* section, we considered *Transparency Procedures* including audited and non audited information, retention of information, validation procedures, financial calendar, auditors, independent accounting experts and non financial reports. *Financial data presentation* was focused on annual reports, stock price evolution, disclosure timing and disclosure on the scope of capital engagement in listed and non-listed companies. Finally the *Corporate Governance Procedures* examined the compliance with selected national codes and corporate governance reports. The third section, *Board of Directors* was divided into five sub-categories – disclosure on general regulations, committees of the board, composition of

the board, board remuneration and reporting. The structure of the fourth section *Executive Management* was designed in similar way, but questions were adjusted to the specificity of managerial input and engagement. Finally in the last section concerning *Technical Accessibility* we examined the level of technological compliance with web publishing standards, usability and issues concerning financial data presentation.

The scoring system for each criterion was constructed on the basis of yes/no responses, with one point for a yes and zero for a no response. Table one presents the number of questions, and thus a maximum number of points for each category as well as the maximum number of weighted points. Further details on each category can be found in the appendix.

Table 1. The main categories of the Internet Based Corporate Governance Rating

IBCG category	Max points	Max weighted points
1 Shareholders	34	30
2 Transparency	32	30
3 Board of directors	26	15
4 Executive management	18	15
5 Technical accessibility	10	10
Total	120	100

Source: authors

In this paper we apply the IBCG rating system to examine the use of Internet in the governance of the largest twenty British publicly listed companies, according to their market capitalization as at the end of April 2006, and twenty largest Polish companies from the Warsaw Stock Exchange WIG20 index. The choice of countries is driven by the following two considerations. On the one hand, we might expect companies in a country with well-established and mature corporate governance to be also a source of good practices in the use of Internet in corporate governance. On the other hand, companies in a country with its corporate governance system only emerging may be more innovating in their approach and more determined to embrace new technologies. The objective of the empirical analysis is to test the proposed rating system and identify examples of good and bad practices.

The application of the IBCG to real companies involved a six-step procedure, which took place in May and June 2006. Note that at every stage of the examination process we were giving only positive points leaving unanswered questions blank. First we did an overview of the investor relations website and rating-related parts of this page. Second, based on the experience with the structure of a website, intuitive navigation was possible, resulting in answers to additional questions. At the third stage, we used sitemaps and internal search engines to find exact pieces of information. Owing to variable efficiency of internal search

engines we also used Google Search with parameter limiting the scope to a selected webpage address. The next stage involved the examination of published documents like pdf's or word files including company annual reports. Then an external test for compliance with web publishing standards was conducted using a World Wide Web Consortium ¹ validator. Due to the complexity of webpages only the front page of investors relations was tested. It is worth noting that only five of forty websites passed this harsh test without a single failure. Finally, we tested the accessibility of the webpages with screen reading programs for the visually impaired using a Wave 3.0 ² testing page. It is worth mentioning that in most cases full compliance with HTML code with W3 standards automatically guarantees the support for a variety of different browsers (Explorer, Opera, Firefox) as well as increases the success of the website in the accessibility test. Preparing pages for visually impaired users requires not only excellent command of web publishing techniques, but also an effort to provide a short text description of every single picture or graphic and sometimes additional sophisticated tools, such as speaking share price analysis tool. At the end of the examination process we did another check to fill blank spaces in the rating and if no information was available the resulting score was nil. Finally the results in the matrix were summarized and weighted.

¹ W3 Consortium <http://www.w3.org/> is responsible for web publishing standards like HTML language used for constructing web pages. To evaluate the compliance with web publishing standards a test page with HTML validator was created and is freely available at <http://validator.w3.org>.

² <http://www.wave.webaim.org/index.jsp>

Table 2. The IBCG rating for the top 20 British and Polish companies

		COUNTRY	IBCG - weighted	SHAREHOLDERS	TRANSPARENCY	BOARD OF DIRECTORS	EXECUTIVE MANAGEMENT	TECHNICAL ACCESSIBILITY
1	Royal Dutch Shell	UK	82,2	27,4	22,5	13,8	12,5	6,0
2	GlaxoSmithKline	UK	79,1	27,4	21,6	12,7	12,5	5,0
3	Vodafone Group	UK	77,4	24,7	22,5	12,7	12,5	5,0
4	BHP Billiton	UK	77,0	25,6	19,7	13,3	12,5	6,0
5	HSBC	UK	77,0	24,7	21,6	13,3	12,5	5,0
6	BG Group	UK	74,6	23,8	20,6	12,7	12,5	5,0
7	Royal Bank of Scotland Group	UK	73,0	22,9	18,8	13,8	12,5	5,0
8	Standard Chartered	UK	72,9	22,1	19,7	12,7	12,5	6,0
9	Barclays Bank	UK	72,0	22,1	18,8	12,7	12,5	6,0
10	MOL	PL	71,8	19,4	20,6	13,3	12,5	6,0
11	Anglo American	UK	70,1	22,1	17,8	12,7	12,5	5,0
12	BP	UK	69,5	16,8	21,6	12,7	12,5	6,0
13	TPSA	PL	69,4	22,1	19,7	11,0	11,7	5,0
14	HBOS	UK	68,5	18,5	17,8	12,7	12,5	7,0
15	AGORA	PL	68,4	28,2	16,9	11,0	8,3	4,0
16	BRE	PL	68,3	20,3	17,8	12,7	12,5	5,0
17	BT Group	UK	68,3	19,4	19,7	12,7	12,5	4,0
18	British American Tobacco	UK	68,0	21,2	17,8	11,5	12,5	5,0
19	PKNORLEN	PL	67,1	23,8	15,9	10,4	10,0	7,0
20	O2	UK	66,9	19,4	19,7	11,0	10,8	6,0
21	LOTOS	PL	66,0	25,6	16,9	9,2	8,3	6,0
22	Diageo	UK	64,9	16,8	18,8	12,7	11,7	5,0
23	BANKBPH	PL	64,7	18,5	17,8	11,5	10,8	6,0
24	AstraZeneca	UK	63,4	15,0	18,8	12,1	12,5	5,0
25	Tesco	UK	62,9	16,8	18,8	11,5	10,8	5,0
26	TVN	PL	62,8	24,7	12,2	12,1	10,8	3,0
27	Lloyds TSB	UK	62,4	19,4	15,9	11,5	12,5	3,0
28	PKO BP	PL	62,1	21,2	15,0	11,0	10,0	5,0
29	KETY	PL	61,2	21,2	15,9	11,0	9,2	4,0
30	RIO Tinto Group	UK	57,7	10,6	16,9	12,7	12,5	5,0
31	BZWBK	PL	54,7	19,4	11,3	9,2	10,8	4,0
32	KGHM	PL	53,1	13,2	15,0	9,2	11,7	4,0
33	ORBIS	PL	52,7	19,4	15,9	4,0	8,3	5,0
34	NETIA	PL	50,7	18,5	16,9	4,6	6,7	4,0
35	BORYSZEW	PL	47,6	18,5	15,0	5,2	5,8	3,0
36	PEKAO	PL	46,2	19,4	13,1	4,6	5,0	4,0
37	PGNIG	PL	46,1	16,8	12,2	6,3	5,8	5,0
38	PROKOM	PL	32,7	7,9	13,1	3,5	4,2	4,0
39	BIOTON	PL	32,1	12,4	9,4	2,9	2,5	5,0
40	GTC	PL	27,1	8,8	9,4	0,6	3,3	5,0

Source: authors

If we rank all rated companies from one to forty, the top nine companies are all British and the bottom ten only Polish. The ratio of the average UK company score to the average Polish company score is high for *Board of Directors* (1.54) and *Executive Management* (1.46), medium for *Transparency* (1.30), and relatively low for *Technical Accessibility* (1.12) and *Shareholders* (1.10).

As regards the relative strengths and weaknesses of the British and Polish corporations, within *Boards of Directors*, there is not a single criterion for which Polish companies would score significantly better than the British companies. In particular, information on the rules of board member remuneration or on board meeting attendance rates is unavailable for almost all Polish corporations. What is more, for *Executive Management* hardly any information on rules of remuneration is available on the websites of Polish corporations. In contrast, information on internal rules of conduct of executive management while common in Poland, does not exist on the websites of the British companies. Additionally, the transparency in Polish corporations fails across the board, particularly in terms of corporate governance reports, and disclosure on audit. The only exception to the rule is disclosure on capital engagement in other companies, where Polish corporations score much better than the UK ones. In addition within the *Shareholders* category, Polish companies lead in terms of the availability of articles of association and disclosure of ownership principles (one share-one vote-one dividend), but lag behind in terms of voting procedures, interactive participation in AGMs, and many others.

As for *Technical Accessibility*, Polish companies tend to have a similar level of browser support, printability, and security, but the usability of websites is often low due to poorer quality of personalisation, search engines, and site maps. It is important to notice that only one company among forty provided SSL³ connection for access to statutory data including annual reports. It is disappointing that twelve (three UK and nine Polish) companies did not follow the ICSA recommendations concerning visual impairments⁴, which in the UK are legally regulated by the Disability Discrimination Act of 2005.

There are several areas of IBCG in which both the British and the Polish companies perform poorly. First of all it is rare to disclose the extended share structure, with very few companies providing information on shares held by the company itself or its employees. Moreover, not a single company provides direct contact details for executive managers or

³ Secure Socket Layer - encryption protocol commonly used in Internet banking due its reliability and connection security. In that case SSL has another advantage – the viewer has confidence both in connecting to a specially authorized web source and in downloading an annual report from a reliable source.

⁴ ICSA (2000, p 9, 10)

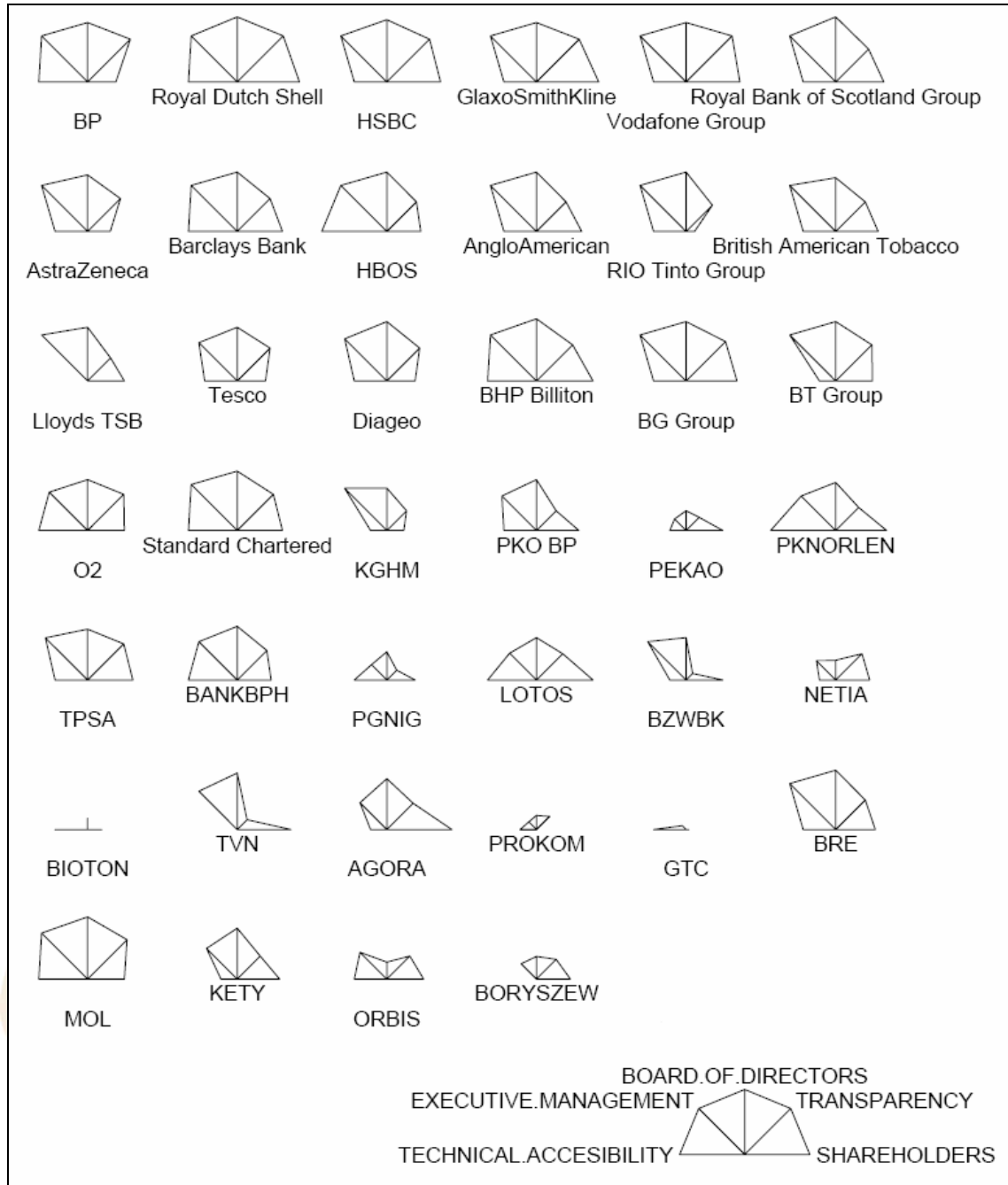
members of the board of directors. This is an important omission as it creates a void between shareholders and board in the case of fraud reporting. Very few companies provide reports or summaries on the past meetings of the board of directors. One of the most disappointing discoveries, however, was the fact that against the ICSA recommendations, audited and non-audited information are mixed on the same pages. It is also disappointing that few companies provide financial statements in a spreadsheet format, and that no companies at all provide it in a format like XBRL⁵, in which the reader can further manipulate the data.

In order to analyse the relationships between the rating categories, we calculated correlation coefficients between pairs of categories. In general, the scores are strongly correlated with each other, with the important exception of *Technical Accessibility*, which shows almost no correlation with other categories. This highlights the usefulness of the category *Technical Accessibility*, as it is not likely to be captured by conventional corporate governance ratings. Interestingly scores for *Executive Management* are very strongly correlated with scores for *Board of Directors* for Polish corporations and only moderately so for the British corporations. This might be due to the fact that Polish companies are obliged by corporate law to have a management board in addition to a supervisory board.

The ICBG can be visualised using a simple star type plot as a way of representing multidimensional data. The variables are independently scaled such that the maximum value for each dimension is 1 and the minimum value is 0.

⁵ The definition of XBRL from a page co-authored by the Deutsche Börse is: “XBRL eXtensible Business Reporting Language is a new electronic format for financial reporting. Using XBRL, companies can efficiently disseminate their quarterly or annual reports to the international capital markets and make them available as needed to private and institutional investors, e.g., for sector or peer-group analyses. (...) This creates room for additional research activities and the increased coverage will especially benefit small and midcap companies” The recommendation of XBRL reporting was provided by the ICSA guide in 2000 and is supported by Deutsche Börse, DVFA and Fraunhofer Institut.

Figure 1. Star Plots for the Internet Based Corporate Governance of the 20 top British and Polish companies

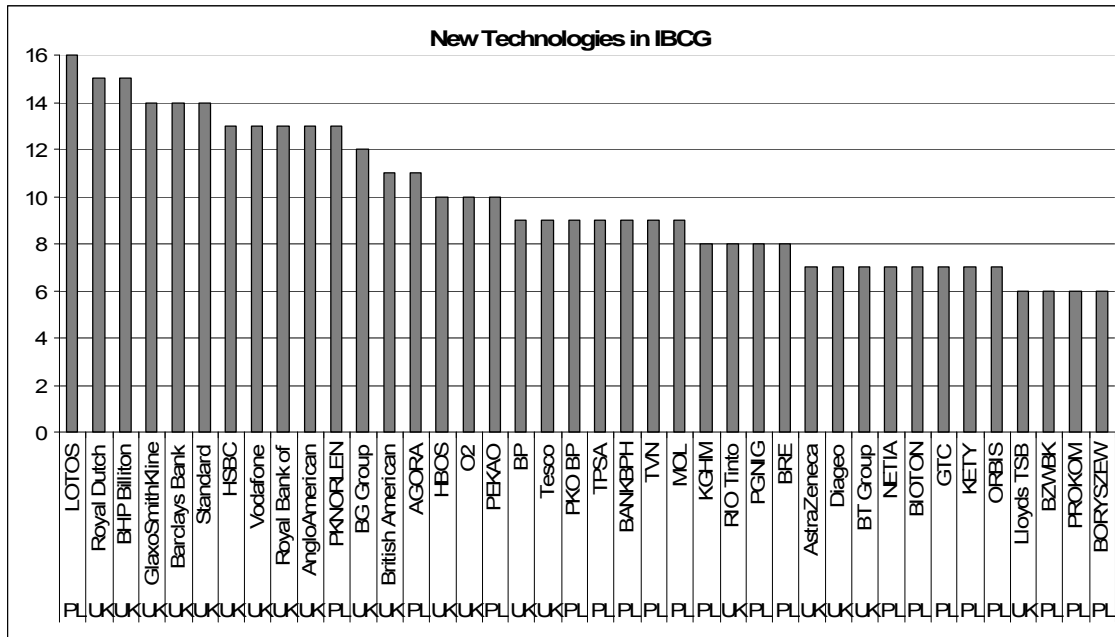


Source: authors

At the final stage of the analysis we need to make a distinction between the contents of the IBCG that involve simple disclosure of corporate governance practices on Internet and those that involve the use of advanced communication techniques. The latter refer to techniques that are related strictly to Internet as a medium of communication, and consists of

twenty criteria⁶. On the basis of these criteria we could construct a sub-rating of the IBCG to which we refer as the New Technologies in IBCG with results presented in figure 2.

Figure 2. New Technologies in Internet Based Corporate Governance Rating



Source: authors

Surprisingly at the top of the sub-rating comes the Polish company Lotos, which scored 16 out of 20 possible points. Lotos’s investor relations webpage is also an extraordinary example of thinking about investors’ needs. It provides a high level of accessibility and full support for all web browsers (thanks to 100% compliance with website building standards⁷) but also introduces multimedia like audio/video AGM broadcast and a variety of shareholder notification tools. Interesting examples of techniques used for communication with shareholders included sms notification (applied by BA Tobacco) and a “briefcase” – a useful tool for converting the selected content into a downloadable, custom-made report (applied by Standard Chartered and Lotos).

Internet Based Corporate Governance compared to conventional ratings

In this section we compare the IBCG of the largest 20 British and Polish companies to their conventional ratings, i.e. overall ratings that evaluate the entire range of corporate

⁶ The criteria used in the New Technologies in IBCG rating were the following: searchability of the statute, accessibility for impaired shareholders, broadcasts of CEO and Chairman speeches, general debate or the entire AGM on internet, the availability of shareholder newsletter, RSS notification, webcasts, tools for the analysis of stock price evolution, support for main browsers, compliance with web standards, printability, connection security, site map, search engine, personalisation, searchability of the annual report, spreadsheet version of accounts and XBRL usage.

⁷ Tested by dedicated HTML validator provided by w3.org

governance practices. The conventional ratings used for the British companies were the Governance Metrics International (GMI) Overall Global Ratings and the Corporate Governance Quotient (CGQ) Index Ratings by the Institutional Shareholder Services. The ratings used for the Polish companies, sourced from the Polish Forum for Corporate Governance (PFCG) and devised by the Gdańsk Institute for Market Economics, were the overall PFCG Rating, as well as the evaluation of corporate governance by the top ten institutional investors in Poland. Unfortunately, no conventional corporate governance rating was available that would rate British and Polish companies at the same time.

GMI Overall Global Ratings are designed to demonstrate how each company's governance profile compares to all others in the GMI rating universe, and range from 1.0 (lowest) to 10.0 (highest). GMI ratings are based on six groups of criteria: board accountability, financial disclosure and internal controls, shareholder rights, executive compensation, market for control and ownership base, corporate behaviour and corporate social responsibility issues. The CGQ Index Ratings are based on the following broad criteria: board, audit, charter/bylaws, anti-takeover provisions, executive and director compensation, qualitative factors, ownership, and director education. The value of the CGQ Index Rating shows the percentage of companies in the respective stock market index outperformed by the company in question, and thus ranges from 0 to 100. Turning to Polish ratings, the evaluation of institutional investors considered three criteria: corporate communication with shareholders, respect for minority shareholders' rights and board functioning. Finally, the PFCG Rating was based on the evaluation of: supervisory boards, management, AGMs, audit, anti-takeover protections, corporate objectives, transparency, dealings in the company's own shares, as well as the evaluation by institutional investors, with the resulting ratings ranging from A to B- (for more details see pfcg.org.pl).

The four conventional ratings are compared to Total IBCG in table 3. In order to quantify the PFCG Rating, we assigned values 5, 4, 3, 2, and 1 for ratings A, A-, B+, B, and B- respectively⁸. Next, we calculated Pearson correlation coefficients between conventional ratings and the Total IBCG Ratings. For the UK the results were negative, with $r = -0.12$ and $r = -0.46$ for GMI and CGQ ratings respectively; for Polish companies they were positive, with $r = 0.40$ and $r = 0.32$ for PFCG Ratings and institutional investors' evaluation respectively. Negative correlations for British companies compared to positive correlations for Polish companies may be explained by the structure of conventional ratings applied in the analysis.

⁸ It is worth noting that the coefficient of correlation between GMI and CGQ for the UK companies was as low as 0.2.

The Polish ratings appear to consider transparency and corporate communication with investors as more explicit rating criteria than those used by the GMI and the ISS. It may also be possible that in countries with lower and less established standards of corporate governance like Poland, the association between overall corporate governance practices and transparency, and the use of Internet in particular, is stronger than in countries with high and well-established standards like the UK. Regarding the British companies, the contrast between the IBCG Rating and the CGQ Ratings is striking. For example, Shell leads the IBCG Rating but has the lowest CGQ Rating in the sample. Rio Tinto, in turn, has the lowest IBCG Rating, despite a relatively high CGQ Rating. These contrasts, as well as the overall low level of correlations with conventional ratings, highlight the distinctive character of the IBCG Rating.

Table 3. Comparison of the IBCG with conventional ratings

	IBCG Total Rating	GMI Overall Global Rating	CGQ Index Rating		IBCG Total Rating	PFCG Rating	Institutional investors' evaluation
Royal Dutch Shell	82,2	7,5	8,92	MOL	71,8	N/A	N/A
GlaxoSmithKline	79,1	8,0	83,84	TPSA	69,4	B+	5
Vodafone Group	77,4	10,0	77,21	BRE	68,4	B+	7
BHP Billiton	77,0	9,0	53,96	AGORA	68,3	A	9
HSBC	77,0	9,0	78,17	PKNORLEN	67,1	A-	7
BG Group	74,6	8,5	89,24	LOTOS	66,0	B	5
Royal Bank of Scotland Group	73,0	8,0	71,90	BANKBPH	64,7	A	7
Standard Chartered	72,9	7,0	81,28	TVN	62,8	B+	5
Barclays Bank	72,0	8,5	88,92	PKO BP	62,1	A-	5
Anglo American	70,1	9,5	84,49	KETY	61,2	A-	9
BP	69,5	8,0	77,53	BZWBK	54,7	A	7
HBOS	68,5	8,5	79,68	KGHM	53,1	B+	3
BT Group	68,3	9,5	89,29	ORBIS	52,7	B	5
British American Tobacco	68,0	8,0	82,33	NETIA	50,7	B	5
O2	66,9	7,5	83,39	BORYSZEW	47,6	B	5
Diageo	64,9	10,0	81,88	PGNIG	46,2	N/A	N/A
AstraZeneca	63,4	8,0	72,17	PEKAO	46,1	A-	7
Tesco	62,9	9,0	71,49	PROKOM	32,7	B+	3
Lloyds TSB	62,4	8,5	78,49	BIOTON	32,1	B	5
RIO Tinto Group	57,7	N/A	88,05	GTC	27,1	B+	7

Source: Based on authors' own data and data from Bloomberg and www.pfcg.org.pl

Implications and conclusions

In this paper, in order to highlight the significance of Internet in corporate governance, we have offered a novel Internet Based Corporate Governance Rating, focusing on the disclosure

of corporate governance on Internet and the use of Internet for communication with shareholders. In addition, applying the IBCG to rate the largest British and Polish corporations, we have shown that while Polish companies generally lag behind the British firms in terms of corporate governance disclosure on Internet, there are exceptions, where Polish companies make a better use of Internet as a communication tool. Finally, we have compared the IBCG Rating to conventional corporate governance ratings, and found low correlations between them, which underscores the distinctive character of the IBCG.

Let us consider the implications of our results at a macro and micro level. At the start of the twenty first century we have been witnessing the emergence of a global market for corporate governance (see Clark and Wójcik, 2007). One meaning of this market is that investors are increasingly aware of corporate governance as an important part of investment risk, and tend to discount the value of badly governed companies. The other meaning of corporate governance globalisation is the emergence of a global market for corporate governance related services for investors and companies alike, with the latter being increasingly aware of corporate governance as a risk affecting corporate performance and integrity. Our argument in this paper is that the development of a global market for corporate governance is enabled by Internet as a medium of information and communication.

Supporting the development of a global marketplace for corporate governance, Internet can contribute to global financial integration. In this context it is worthwhile noting that one of the priorities of the European Commission's Action Plan *Modernising Company Law and Enhancing Corporate Governance in the European Union* is a legal framework facilitating efficient shareholder communication and decision-making (EC, 2003). One of the crucial problems recognised by the Action Plan is that shareholders, particularly in cross-border situations, find it difficult to exercise their votes and obtain relevant corporate information (PwC, 2006). We hope that the creation of ratings focused on Internet use in corporate governance, such as the IBCG, can contribute to the enhancement of corporate governance i.a. by identifying bad and good practices, and putting pressure on badly performing companies.

In terms of the implications of our paper at a micro level, let us consider for a moment why some companies have poor IBCG ratings. We would distinguish between three groups of reasons. First, companies can be unaware of the significance of Internet disclosure on corporate governance and Internet use for corporate governance communication. Our conversations with corporate governance analysts suggest that indeed management in many companies underestimates the role of Internet in corporate governance context, often

assuming that availability of information through specialised services like Bloomberg or Reuters is sufficient. In this context it is worthwhile recalling the results of previous research indicating that, in Europe in the period between 2000 and 2004, disclosure was the fastest improving aspect of corporate governance (Wójcik, 2006). At least partly, these results could be explained by a growing awareness among firms of the significance of public disclosure for corporate governance.

Second, there are direct costs of creating and maintaining corporate governance websites and related software. Our knowledge of creating and managing corporate websites, however, suggests that these costs are relatively low. Third, there are indirect costs of using Internet in corporate governance in cases where poor communication with shareholders and low level of disclosure protects the private benefits of control accruing to management, directors, controlling owners or related parties. It is this third reason, arguably more important than the other two, which implies that the IBCG Rating can be useful for investors and analysts in estimating corporate governance risk. To be sure we do not idealise the role of Internet in corporate governance. Virtual AGMs and in particular board meetings are unlikely and should not replace physical gatherings of people, just like a proper audit cannot take place without auditors spending some time on the premises of the audited company. Control based on virtual interaction is a complement not a perfect substitute for physical interaction.

In order to continue the project on Internet and corporate governance, and as a follow-up on this paper, we are in the process of developing a standard, which will allow an efficient way of “tagging” specific corporate governance data in the sea of corporate information available on Internet. This involves the creation of software that will facilitate quick harvesting of corporate governance data, while respecting different ways in which individual companies organise their Internet content and layout. It is intended that the users of the software will be able to create their own customised corporate governance ratings based on the actual up-to-date content of corporate websites.

Authors' profiles

Michał Grzybkowski graduated from The Poznań University of Economics (Poland) and now is a visiting Ph.D. student at University of Oxford, Jesus College. In 2005 he was awarded the Scholarship of the Lesław Paga Foundation to study the role of financial markets in economy and society. He has broad experience in Internet technologies being responsible for building one of the first Polish portals for computer entertainment (ranked in top 10 by Wprost Magazine in 1997); and he is the CEO of Conecto.net - one of established online marketing agencies in Poland. His PhD research is focused on

transparency of corporate governance and the use of the new technologies for shareholder communication.

Dr Dariusz Wójcik works as a Research Fellow at Jesus College, Oxford University and a Lecturer at the University College London. He holds an MSc in geography from the Jagiellonian University, an MSc in Economics from the Cracow Academy of Economics, and an MSc in Banking and Finance from the Stockholm University. In 1996-1999 he was a consultant for KPMG Poland. He obtained his PhD from Oxford University for a thesis on European corporate governance and capital market integration, and in 2002 and 2003 he worked at the London School of Economics and Political Science lecturing on Europe in the global economy and transition in Central and Eastern Europe. He has published papers on financial globalization, European economic integration, and corporate governance, and his research was reported in the Financial Times. He is a member of Deutsches Corporate Governance Netzwerk, and organised the conference European Finance and Economic Geography sponsored by the European Science Foundation in 2004. In 2007 the Oxford University Press will publish his book written with Gordon L. Clark *The Geography of Finance: Corporate Governance in a Global Marketplace*.

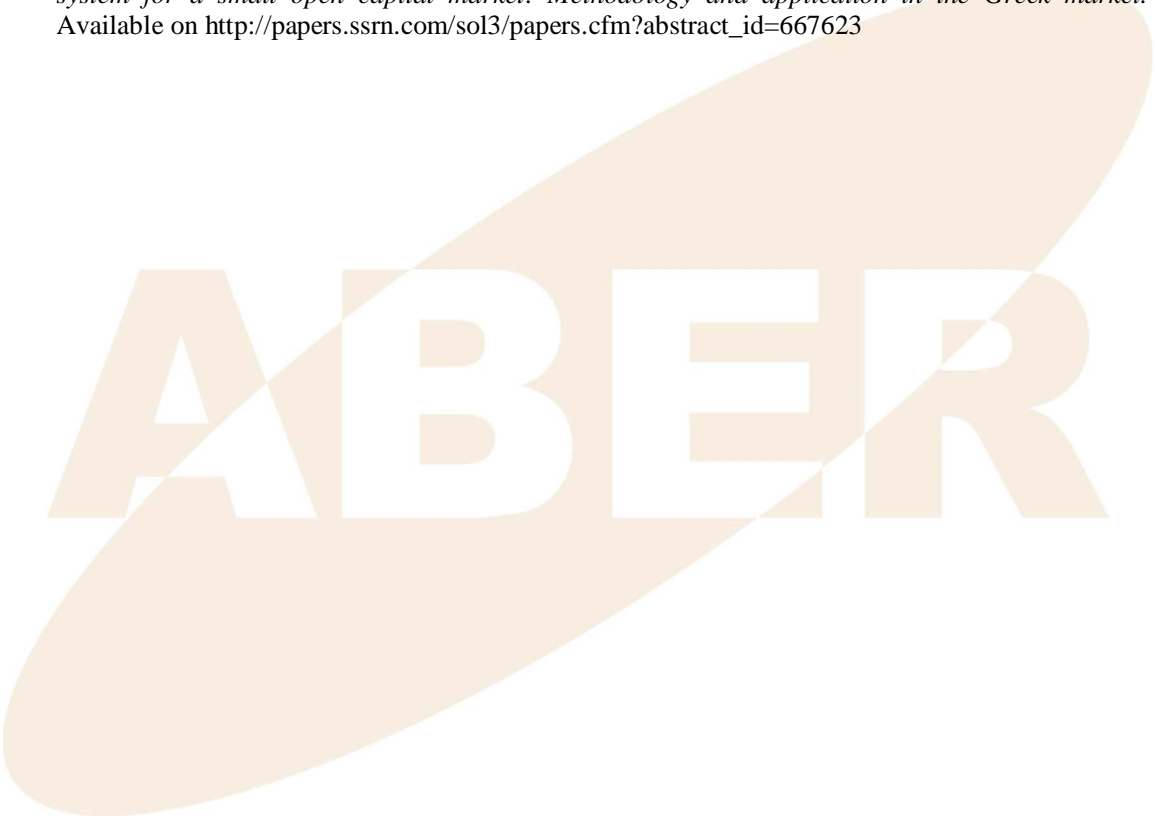
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Appendix

Detailed criteria of the Internet Based Corporate Governance Rating

- 1 **SHAREHOLDERS**
 - 1.1 **Rights and Obligations**
 - 1.1.1 **Company statute (articles of association)**
 - 1.1.1.1 Full text available on company website
 - 1.1.1.2 Statute available in searchable format
 - 1.1.2 **Shareholding structure:**
 - 1.1.2.1 Disclosure on current ownership structure (more than 5% shares)
 - 1.1.2.2 Amount of shares held by the company
 - 1.1.2.3 Amount of shares held by management
 - 1.1.2.4 Amount of shares held by supervisory board
 - 1.1.2.5 Amount of shares held by employees
 - 1.1.3 **Disclosure on ownership principles**
 - 1.1.3.1 One share - one vote
 - 1.1.3.2 One share - one dividend
 - 1.1.3.3 Additional information on the presence of unequal voting rights
 - 1.1.4 **Presence of organized Investor Relations department**
 - 1.1.4.1 Contact details / opening hours
 - 1.1.4.2 Person in charge
 - 1.2 **Key ownership functions**
 - 1.2.1 **Disclosure on voting procedures**
 - 1.2.1.1 Standard voting procedures
 - 1.2.1.2 Proxy voting procedures
 - 1.2.1.3 Real-time voting
 - 1.2.1.4 Internet voting procedures
 - 1.2.2 **Disclosure on Annual General Meetings**
 - 1.2.2.1 Indication of the minimum number of shares to call a GM
 - 1.2.2.2 Indication of date, time and meeting place
 - 1.2.2.3 Presentation of agenda
 - 1.2.2.4 Deadline for the return of proxy forms
 - 1.2.2.5 New amendments / proposals
 - 1.2.2.6 Procedure for submission of questions
 - 1.2.2.7 Current detailed voting results
 - 1.2.2.8 Archives of past meetings with detailed voting results
 - 1.3 **Equitable treatment**
 - 1.3.1 **Equal access to information:**
 - 1.3.1.1 Fair disclosure policy
 - 1.3.1.2 English version of the website
 - 1.3.1.3 Accessibility and compliance with Disability Discrimination Act (1995)
 - 1.3.2 **Interactive participation in AGM**
 - 1.3.2.1 Broadcast of CEO Speech
 - 1.3.2.2 Broadcast of chairman speech
 - 1.3.2.3 Broadcast of general debate
 - 1.3.2.4 Broadcast of the entire shareholder meeting on Internet
 - 1.3.3 **Voluntary notification tools**
 - 1.3.3.1 Availability of shareholder newsletters
 - 1.3.3.2 Shareholder news RSS notification
 - 1.3.3.3 Web casts / audio casts / video casts
 - 2 **TRANSPARENCY**
 - 2.1 **Transparency procedures**
 - 2.1.1 **Distinction between audited and non audited information**
 - 2.1.1.1 Existence of warning pages, visible notifications, highlights
 - 2.1.1.2 Existence of a direct link on the company website to the statutory section
 - 2.1.1.3 Avoidance of mixing audited and non audited data on the same page
-

2.1.2	Retention time of the statutory information on the company website
2.1.2.1	Up to three years
2.1.2.2	More than three years
2.1.3	Internal validation procedure for information on the company website
2.1.3.1	Indication of date and time when the contents were last updated
2.1.3.2	Indication of authorization source
2.1.3.3	Indication of the director ultimately responsible for the content of company webpage
2.1.4	Financial calendar
2.1.4.1	Availability of financial calendar on the company website
2.1.5	Auditors
2.1.5.1	Contracted auditors
2.1.5.2	Fees from audit
2.1.5.3	Fees from non audit services
2.1.6	Procedures of appointing external accounting experts
2.1.6.1	Definition of independent accountant expert
2.1.6.2	Value of contract
2.1.7	Other reports
2.1.7.1	Environmental report
2.1.7.2	Charitable report / CSR report
2.1.7.4	Certification reports (e.g. ISO)
2.1.7.5	Corporate governance report
2.2	<u>Financial data presentation</u>
2.2.1	Disclosure on annual report and accounts
2.2.2	Rules and legal regulations applicable to annual report
2.2.3	Stock price evolution
2.2.3.1	Last year
2.2.3.2	More than one year
2.2.3.3	Dynamic tool for self analysis
2.2.4	Financial reports disclosure timing
2.2.4.1	Availability of quarterly reports on company website
2.2.4.2	Availability of half-year reports on company website
2.2.4.3	Availability of annual reports on company website
2.2.5	Scope of capital engagement
2.2.5.1	Indication of capital engagement in listed companies (more than 5% of shares)
2.2.5.2	Indication of capital engagement in non-listed companies (more than 5% of shares)
2.3	<u>Corporate Governance procedures</u>
2.3.1	Indication of compliance with a selected code of best practice
2.3.2	Disclosure on board obligation to follow best practice
2.3.3	Disclosure on board obligation to present annual corporate governance report
2.3.4	Existence of an independent corporate governance representative
3	BOARD OF DIRECTORS
3.1	<u>General regulations</u>
3.1.1	Internal rules of conduct
3.1.2	Disclosure on the fact that chairman has a decisive voice
3.1.3	Rules of board remuneration
3.1.4	Disclosure on CEO/Chairman relation
3.1.5	Composition and responsibilities of board committees:
3.1.5.1	Audit committee
3.1.5.2	Nomination committee
3.1.5.3	Remuneration committee
3.1.6	Composition of the board of directors
3.1.6.1	Total number of members
3.1.6.2	Total number of independent directors
3.1.6.3	Definition of independent director
3.2	<u>The board of directors</u>

3.2.1	Number of members
3.2.2	Personal details
3.2.3	Description of the position
3.2.4	Disclosure on time spent with company
3.2.5	Disclosure on members' age
3.2.6	Disclosure on the number of shares held by members
3.2.7	Disclosure on external function and activities
3.2.8	Disclosure on academic background
3.2.9	Disclosure on previous positions
3.2.10	Contact details
3.3	<u>Board remuneration</u>
3.3.1	Aggregate remuneration
3.3.2	Chairman's remuneration
3.3.3	Individual remuneration
3.3.4	Disclosure on individual share incentive plans
3.4	<u>Board reports</u>
3.4.1	Disclosure on last three board meeting summaries (board reviews)
3.4.2	Disclosure on attendance rate of members
4	EXECUTIVE MANAGEMENT
4.1	<u>General regulations</u>
4.1.1	Internal rules of conduct
4.1.2	Disclosure on a fact that CEO has a decisive voice
4.1.3	Rules of management remuneration
4.2	<u>Structure of the board</u>
4.2.1	Number of members
4.2.2	Personal details
4.2.3	Position held
4.2.4	Disclosure on time spent with company
4.2.5	Disclosure on members' age
4.2.6	Disclosure on the number of shares held by member
4.2.7	Disclosure on external function and activities
4.2.8	Disclosure on academic background
4.2.9	Disclosure on previous positions
4.2.10	Contact details
4.3	<u>Executive management remuneration</u>
4.3.1	Aggregate remuneration
4.3.2	CEO remuneration
4.3.3	Individual remuneration
4.3.4	Disclosure on individual share incentive plans
4.3.6	Disclosure on performance based remuneration
5	TECHNICAL ACCESIBILITY
5.1	<u>Technology</u>
5.1.1	Browsers support (Explorer, Opera, Firefox)
5.1.2	Compliance with W3 consortium
5.1.4	Printability
5.1.5	Security
5.2	<u>Usability</u>
5.2.1	Site map
5.2.2	Search engine
5.2.4	Personalisation
5.3	<u>Annual report and Accounts data manipulation:</u>
5.3.1	Data available for instant review in searchable format
5.3.2	Financial data provided in spreadsheet format (xls)
5.3.3	Financial data available in high-level languages ready for manipulation (XBRL)
