4

Crisis Management

4.1 Responsibility of the Board

The latest phenomenon to hit public company boardrooms is the "privatized enforcement process," by which federal and state regulators turn outside directors into involuntary partners in government enforcement efforts concerning corporate accounting and disclosure. The Securities and Exchange Commission (SEC) and state attorneys general now use carrots (reduced penalties against public companies) and sticks (increased penalties against public companies) to induce directors of public companies to launch audit committee (or other special committee) investigations. Such efforts by regulators amount to a back-door draft of directors into quasi-enforcement efforts to investigate alleged problems with corporate controls, accounting, foreign payments, sales transactions, executive perks and the like, using private company resources (including expensive forensic email retrieval) at company expense, to review and report to the regulators (thereby saving taxpayer dollars). The regulators then use that information for possible enforcement actions against present or former company executives and/or the company itself.

This accelerated privatized enforcement process often occurs in parallel with stock exchange inquiries, civil lawsuits, notice from the insurance carrier of potential curtailment of Directors and Officers (D&O) coverage, and adverse publicity — to the point that it has become its own area of director expertise. Public directors are being rapidly divided into two camps: those who have been through these crises and those who (no doubt) will be put through one in the future. Every public company director needs to know about this new process before the lightning strikes.

Specifically, regulators are now using the prospect of increased penalties that have arisen from enhanced director responsibilities following Sarbanes-Oxley reforms to pressure boards of directors to look into questions raised by whistle-blowers, by other regulators or by events at peer companies.[1] Furthermore, the same regulators (SEC and state regulators) are publicly emphasizing that companies that "self-report" problems (before regulators find out about them) will receive better enforcement treatment than those who do not do so. Of course, this raises the question of just how a company determines that a problem is serious enough to merit self-reporting it to a regulator with the attendant risk that a problem initially viewed as small in scope (and, therefore, not reportable to regulators) may later balloon, making Monday-morning-quarterbacking of a decision not to self-report all too easy.

The protocols involved when boards of directors launch and complete such regulator-induced investigations of accounting issues, foreign payments, or other matters are rapidly evolving and complex.

Stock exchanges will require that a specific record be kept and presented as to how and when the investigated issue first came to the board's attention and what the board did about it. The SEC (and state attorneys general, or the United States Attorney's Office) will want that and more.

A board needs to authorize the relevant committee to quickly embark upon several parallel efforts to investigate the matter (if the accounting committee: the transactions identified by management, the regulator, or a critic and any other transactions of similar nature; the proper accounting for those transactions; the associated accounting controls and any implications for personnel changes).

The board committee needs to address these issues while at the same time responding to regulatory subpoenas, stock exchange listing inquiry, civil litigation and attendant publicity. Such parallel efforts become a virtual full-time job for committee members for the duration of the inquiry (and those directors need to be compensated specially for such a role). The committee will need the assistance of its own counsel, and its own accounting or financial advisors as well. Conclusions and recommendations developed by the committee will have to be presented to regulators and to the company's auditors, making those materials potentially discoverable in private litigation against the company or its executives.

[1] The full text of the Sarbanes-Oxley Act is provided on this book's companion CD-ROM.

On top of everything else, this activity takes place on an expedited basis, for several reasons. First, there are now only 40 days allowed between the end of a quarter and the filing of the company's Form 10-Q. Second, the company's auditor now must sign off on its "SAS 100" timely quarterly review of the 10-Q's financial statements, but will not do so if there is a pending inquiry or review of a potentially material accounting issue (even if related to a prior period). Third, the stock exchanges commence delisting proceedings if the Form 10-Q is not filed in a timely manner, or no later than by a single five-day extension.

Thus, to avoid delisting, the committee review becomes a necessarily expedited process. Two tables illustrate this process: Table A is a timeline of the key activities and milestones.

Table A

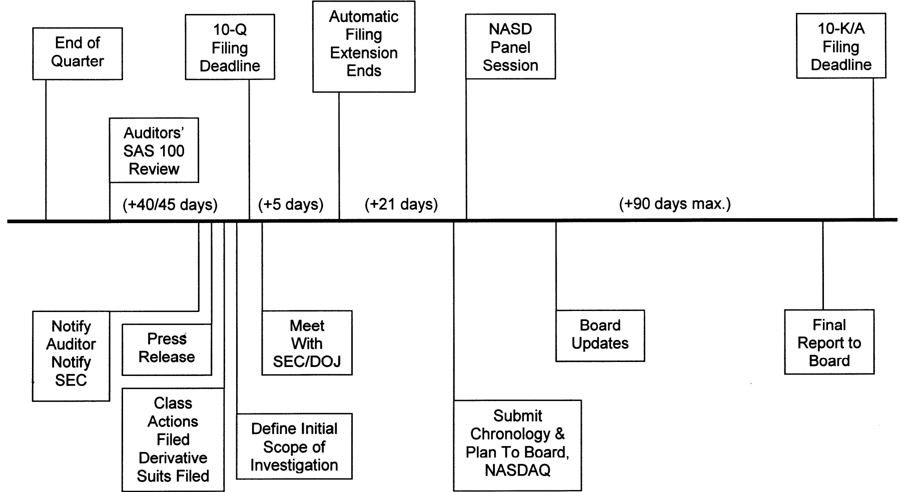
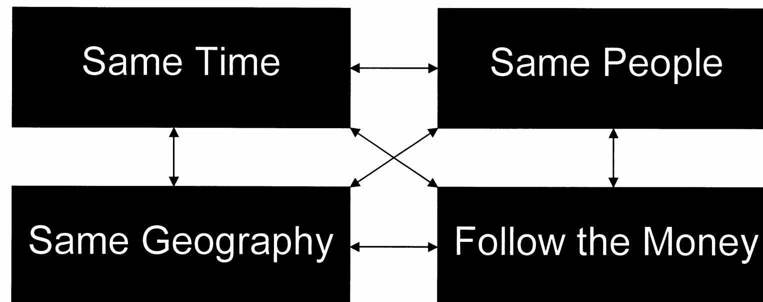


Table B illustrates how the initial scope of an investigation is defined: By looking at the people, region and time period in which a suspect transaction occurs and then reviewing other transactions involving those same people, regions or time periods, while always "following the money trail" by looking at associated receivables and payables. The cross-lines on Table B illustrate how

this iterative process leads to re-evaluation of investigatory scope, as one person leads to another or one period to another, and so on until all transactions within the criteria are identified for review.

Table B



At this point, you might justifiably ask, why on earth would a company create a record that potentially could be used against it in civil lawsuits? The answer is that if the board committee is not prepared to act energetically and to share at least the conclusions of its investigation with the SEC, attorneys general, and the U.S. Attorney, then those regulators will tell the company to "step aside" while they fashion the same record but at greater regulatory cost to the company — and the company will receive no credit from the government for self-policing efforts.

In short, the federal and state regulators, post-Sarbanes-Oxley, have developed this "self-policing" option as a major regulatory weapon — to the point that boards of directors now have to choose between the option of potentially lesser regulatory and criminal (if applicable) penalties in return for active committee self-policing efforts (which themselves result in committee-generated findings that potentially raise greater risk of civil liability), and the option of letting the regulators proceed without board committee help, which will likely provoke sterner regulatory and (if applicable) criminal findings — which, in the end, are also germane to civil lawsuits.

Prudent non-corrupt boards of directors are well-advised to take into their own hands the rooting out of accounting irregularities, corrupt payment problems, or other misconduct because it is the "right thing to do," because of the regulatory and enforcement benefits, and because the attendant publicity and accountability to shareholders also require either such action or very good reason for not taking it.

The most important lesson that directors can learn from regulators' behavior in the context of this new phenomenon is that boards need to anticipate, and to have in place, programs that get ahead of regulators' and prosecutors' agendas. How might they do that?

The answer has as much to do with anticipating regulators' needs and processes as it does with substantive compliance steps. Today's regulatory and prosecutory "hot buttons" (the capitalization of expenses, revenue recognition on sales to resellers or distributors, "market timing," "earnings management," etc. — whether at WorldCom, high-tech firms, mutual funds or Fannie Mae) will not be tomorrow's hot buttons. For that reason, smart boards need to recognize that those seemingly variant regulatory initiatives do have one hugely important characteristic in common: They are, by and large, bound up with alleged misapplication of a single accounting methodology (or a small set of them), which resulted in huge computational variance. Billions of dollars in restatement do not usually arise from computational error. Instead, today's major cases involve application of complex criteria for the permissible choice of accounting treatment (methodology) that determines whether accounting can properly reflect financial data one way over another — criteria, which if not satisfied lead to revised accounting for innumerable transactions, years after the fact, for multiple reporting periods.

Regulatory skepticism is immediate and hard to assuage if the methodological path chosen by the company is not readily defensible. As shown below, "readily defensible" now has special meaning in the court of public opinion, which increasingly conditions whether cases involving methodological challenge will even get to the trial in a court of law.

This high-stakes poker game of after-the-fact regulatory revisiting of methodological paths chosen and not chosen puts a huge premium on today's board's ability to justify the chosen path (and board oversight) in what I call "camera-ready" fashion. By that I mean that each regulatory "inquiry" into the company on any issue should be screened for its methodological implications. Is the inquiry, for example, related to a whistleblower's report of an isolated, immaterial incident (e.g., defalcation by a foreign country sales representative

who paid an unauthorized commission on a sale and was fired for it)? Or is the issue methodological (for example, implicating years of accounting one way for a category of income statement or balance sheet items based on satisfaction of requisite criteria)? If the issue is the latter, the board should already have anticipated and put in place procedures and processes that it can trigger in response to the inquiry. Chief among these are the following two procedures:

4.1.1 Documentation of Methodological Choices: Contemporaneous Record of Independent Business Judgment Applied to Accounting Paths Chosen

Starting today, any financial statement method important enough to rise to the level of perennial materiality (for example, the method chosen for accounting for sales through resellers; for stock options; for securities held; for software development; or for loss contingencies) should have contemporaneously articulated documentation of the reasons for the accounting path chosen (i.e., the business judgment) and of the audit committee adoption or ratification of same (i.e., the independent business judgment). Such documentation should be both articulate (self-containedly persuasive) and numerate (methodologically specific). Too often, the former is lacking. Yet, the regulators' first impression of the company's response will be most significantly influenced by the presence or absence of a contemporaneous independent articulation of the path chosen, rather than a mere enumeration of the accounting details concerning the precision of execution of the method chosen.

The book *Blink*[2] observes that "first impressions" are more significant and lasting than even folklore would lead us to believe. My empirical experience with decision-makers validates this point. Consequently, given the prosecutors' regulatory hunger to fit complex facts quickly into a proper conceptual framework, no board should leave itself without the power of a response to prosecutors and regulators that overlays computational explanation with a succinct, historical, contemporaneous (i.e., not ginned-up-now-for-response purposes) articulation of vetted issues and resultant judgments on chosen methodology. Going forward, boards need to identify the major methodological choices embedded in their companies' financial statements and prepare such succinct assessments of chosen methodology as pre-emptive rebuttals to any later challenge.

My guess is that this area will be the battleground of regulatory action, much more so than the anticipated fallout from the upcoming auditor attestation of accounting controls. (The latter subject is addressed in Chapter 3.) After all, the

[2] Gladwell, Malcolm. *Blink: The Power of Thinking Without Thinking*: Little, Brown and Company, 2005.

controls will be the environment in which the application of large methodological choices is tested for compliance with chosen methodology. While non-compliance with a methodology due to errors can be troublesome, or due to "irregularities" (improper conduct) can damage careers, the incorrect selection of methodology in the first place can threaten companies.

Lastly, controls on the implementation of the chosen methodology must be robust and their application readily conveyed in any preemptive rebuttal to regulatory action. Most significantly, controls need to assure that criteria for application of the chosen method of accounting are met on an ongoing basis and need to note any exceptions. After all, most controls are cross-checks, and the record of the cross-checks should list, cumulatively, all exceptions — lest a build-up of exceptions "swallow the rule." Periodic review of exceptions is required to assure that their frequency does not invalidate application of the accounting method under applicable criteria. This cross-check and exceptions list should be ever-ready to be proffered to persuade regulators to stay their hands at the outset of a potential inquiry.

4.1.2 Pro-Active Response to Regulatory Inquiry and to Media Attention

Correspondingly, getting ahead of the regulatory momentum with previously prepared documentation of reasoned choices and correct methodological implementation requires a pro-active agenda-setting attitude with the regulators and the media. That means not waiting to rebut regulator conclusions and media spin, but relentlessly presenting the regulators with assimilated facts to the point that they will have the confidence in the board to step back and allow the board to review the facts and present its case. Media relations in this setting require several sophisticated approaches, including timely announcement of the regulatory inquiry along with quantifying the size of the problem.

Quite often it will be impossible at the outset to quantify the ultimate outcome of a restatement of revenues or a change in accounting methodology. But too often boards miss the opportunity to quantify or "size" the problem for the investor, supplier and customer marketplaces because they mistake their inability to estimate the outcome for an inability to size the previously reported entries being reconsidered. For example, regardless of the periods in which, and amounts of which revenues are later restated, the board can state at the outset the amounts of previously reported revenue and the precise prior periods "in play" for potential restatement, and whether or not current earnings are expected to be adversely impacted in a material way. Similarly, regardless of the precise impact of a methodological accounting shift, the amounts recorded un-

der the prior methodology can be stated at the outset of board inquiry together with a public statement demonstrating that the independent directors are in charge of a vigorous process and that observers should stay tuned but remain patient while that energetic board committee executes its mission to resolve the issues.

4.1.3 Takeovers and Other Significant Transactions

As summarized in Chapter 1, directors owe the company and its stockholders duties of due care and undivided loyalty when overseeing the corporation. As long as directors act in good faith and fully inform themselves about the decisions they must make, they have the comfort of knowing that, absent fraud or self-dealing, their decisions on behalf of the company will not expose them to personal liability. Directors' duties are heightened in corporate control contests, however. There, one or more Special Duties of proportionality, neutral planning and price maximization often come into play. This chapter reviews how to proceed, step by step, in various takeover situations.

4.1.3.1 Takeover Readiness and the Project Team

Takeover readiness starts with two steps: first, the assembly of a project team, and second, a complete review by that team of the corporation's takeover posture, which it reports to the full board.

The project team should be small. It should be composed of the CEO, CFO, possibly the chairman, preferably one (or more) outside director(s), the corporation's inside general counsel and outside counsel expert in takeover matters, and an investment banker. Later, there may be need to add a financial public relations firm (as opposed to a proxy solicitation firm), and other officers of the corporation (such as investor relations) or outside help (such as a proxy solicitor). A project team participants' list should be compiled and distributed to team members, containing name, home and office addresses, and telephone, cell phone, email and facsimile numbers. The team need not have any special name, but its mandate of apprising the full board on the company's takeover readiness should be made clear.

The team's first task should be to review the corporation's takeover readiness in all respects. This is best done by adopting the point of view of an outsider, a potential acquiror. From this perspective, the team needs to review every aspect of the corporation's present legal structure and financial condition in order to develop a complete picture of the corporation's strengths and vulnerabilities that a potential acquiror would develop.

8

The Political Economy of Corporations: Varying Approaches to Corporate Governance Around the World

8.1 Corporate Governance Abroad

Directors and officers of U.S. corporations face foreign competition every day. It takes several forms: sales of foreign-made competing products; direct foreign investment in U.S. assets; and competition abroad for the increasingly large share of total sales by U.S. companies that is composed of sales outside the U.S. In high-tech companies, for example, the older the product line, the higher the percentage of sales made abroad (often 70 percent or more).

Nevertheless, some officers and directors of U.S. companies may know relatively little about the very different forces affecting their international operations, and perhaps even less about the ways in which foreign practices influence those non-U.S. companies selling in our domestic market and/or acquiring U.S. assets.

With the demise of the Soviet Union, the triumph of capitalism and the success of the Reagan-Bush/Graham-Rudman/Greenspan economic agenda, there is a tendency to view capitalism as synonymous with free markets and to overlook the important differences in institutional settings and practices among companies based in the U.S., Great Britain, Europe, and East Asia. However, those forces of institution and practice are increasingly determining the comparative advantage of competing corporations in a world in which information, technology and train-

ing increasingly dominate over raw materials and pricing strategies as keys to corporate survival. Consider that contested takeovers, so common in the U.S. and Great Britain, are still relatively rare in Germany, Switzerland and Holland, and rarer still in Japan. Indeed, until recently, all of the types of free market anti-takeover devices and duties familiar to U.S. corporations' directors were wholly inapplicable — entirely irrelevant — to corporations incorporated in those countries. Think of the savings in executive time deriving from an institutional setting that eliminates the risk of contested changes in control. But what is the impact of insulation against hostile takeovers on management efficiency — which the threat of takeover is supposed to stimulate?

Different national models of corporate capitalism have provided distinctive competitive advantages and disadvantages. Those different national institutions and practices can give a foreign company a competitive edge in the world marketplace. In the short run, the officers and directors of America's public corporations at least need to be aware of those corporate competitive disparities in developing strategies to sell against foreign firms. In the longer run, it may be that America's directors and officers should act individually or collectively to strengthen the advantages that U.S. institutions and practices already enjoy over foreign firms, and also to cherry-pick from abroad — and import as institutional or practice reforms here — those importable features of foreign enterprise that give others an edge against U.S.-based companies.

Accordingly, with all the clamor and controversy surrounding the 2002-2004 rules-based corporate governance reforms in the U.S. falling broadly under the Sarbanes-Oxley banner, it is useful to look at how the Rest of the World ("ROW") has handled corporate governance and its reform at the start of this millennium.

Not surprisingly, reform fever is not confined to America. From Cape Town to Kenya, from Hong Kong to London, and from Paris to Pondicherry, new corporate governance guidelines have popped up like mushrooms after rain. Approaches vary widely, and the principal ones are discussed below. Furthermore, whereas in the U.S. no study has yet shown a correlation between enhanced governance and enhanced shareholder value for public companies traded in our efficient markets, in the ROW, studies do show such value relationships.

It *may* be that U.S. capital markets are sufficiently efficient now that empirical or statistical analyses linking improved governance to improved shareholder value start from a base that is already beyond diminishing returns to further adjustment with transparency. Or perhaps such studies are ongoing and soon to appear. Time will tell.

In the ROW, various studies do confirm that markets will exact punishing discounts if minority shareholder rights are impeded or if financial statements are less transparent. Worldwide, it is assumed or accepted that corporate directors need to be mindful of the four "v"s: vision, value, vigilance and virtue. Governing a company to guide its vision in order to build its value also requires vigilance to assure that it is done with virtue. But vigilance to assure virtue through sound corporate governance by no means assures that the company will create value through sustained vision. Good governance may be sine-qua-non of enduring success, but it is not a substitute for innovation and execution in the marketplaces of ideas, products and personnel.

Where shall we start a tour of ROW approaches? There is a good reason to track east from the NYSE to the U.K. (and thereby pick up Canada and Australia to boot because they mirror the U.K.), then to Brussels (the E.U.), Paris (OECD), Bonn, with a look out the window at Africa, and on through the night past India to the Far East before landing back on our continent in Mexico.

8.1.1 The U.K.: "Comply or Explain"

The topic of corporate governance became popular in 1992 in the U.K. following the publication of the Cadbury Report, a series of recommendations regarding the roles of directors and auditors issued by a Stock Exchange committee led by candy heir Sir Adrian Cadbury. The Cadbury Report evolved into the Combined Code, which was drafted to address the accounting scandals at several of the U.K.'s foremost financial firms in the early and mid '90s. (British and Commonwealth Bank in 1990, BCCI in 1992 and Barings in 1995). The Combined Code was adopted by the Financial Services Authority in 2003 as an appendix to its Listing Rules for traded companies.

The Code establishes guidelines for board composition, outside director roles (audit, compensation, and nominating committees) and separation of chairman and CEO roles. Independence criteria and other principals are also articulated.[1]

Significantly, and unlike with SOX in the U.S., British companies are not obligated to comply with these corporate governance principles. Companies that choose not to comply are instead directed to "explain" — that is, disclose — their non-compliance, stating reasons for each variance. In addition, no regulatory enforcement proceeding or class action is prompted by non-compliance. In the U.K., corporate professionals apparently trust that the market will punish or reward companies to the extent that they depart or comply with such principles. In other words, they believe that the voluntary Combined Code represents insti-

[1] The full text of the Combined Code is provided on this book's companion CD-ROM.

tutional investors' collective view of best corporate governance practices, and that a company's disclosure of variances from Code will be enough for institutions to "vote with their feet" and bid the stock up or down accordingly.

This idea has been rather slow to catch on, however. Although the degree to which listed companies have complied with the Combined Code has increased over the past several years, even today only about 50 percent of listed companies are fully compliant. "Explanations" for noncompliance vary widely, including the unenlightening explanation that the board simply does not consider compliance to be a good idea. For example, executives at the supermarket chain Wm. Morrison Supermarkets PLC "explained" the company's absence of non-executive directors for the years 1994 to 2004 in this way: "The company does not have any non-executive directors on the board. Directors are mindful of the provisions of the Combined Code in this regard and regularly review the situation." (Last year, following its acquisition of Safeway stores, Wm. Morrison appointed two independent directors.)

Whether comply or explain will endure without regulatory penalty (such as delisting or SEC-type sanctions) may be affected by whether the U.K. experiences an Enron-type failure or other financial earthquake. But the system of comply or explain also will be affected by SOX itself. SOX Section 404, which imposed huge burdens on U.S. public corporations in 2004 and 2005, will apply to foreign filers (companies incorporated abroad) who issue securities to the U.S. public through SEC filings in the U.S beginning in 2007. How those foreign filers plan to address material weakness issues under 404 controls-certification requirements if they have a non-compliant (neither Combined Code nor SOX) audit committee remains to be seen. It is likely that SOX 404 will force fast-growing, capital-hungry foreign firms looking to raise money in the U.S. to comply fully with SOX audit committee independence and other standards, or be denied access to U.S. markets. (A fascinating body of literature analyzing this topic of cross-border listings has emerged. See the source list on the companion CD-ROM.)

8.1.2 The European Community and the OECD

Although the twenty-five member states of the European Union have distinctly different legal regimes and practices, their corporate governance codes are strikingly similar, and continue to converge. Each of the 25 states have voluntary codes of corporate conduct, and a minority have adopted the U.K.'s comply or explain principle. Moreover, while each E.U. member state has its own governance code, those codes are influenced by common principles such

as the OECD's Principles of Corporate Governance and by cross-border, market-driven desires for commonality.

It is not the E.U.'s corporate governance codes per se that differ widely from U.S. governance practices, but rather the individual members' long-standing statutes and regulations, such as the dual-board structures of Germany, Austria and the Scandinavian countries; the right to employee representation on supervisory boards in Austria, Denmark, Germany, Luxembourg, Sweden and France (usually when employee shareholdings equal 3 percent or more); the right of employee representatives to attend board meetings in France and the Netherlands, even though they have no vote; and the degree of information disclosed about board members. In the U.K., for example, companies tend to disclose the same information about board members as their U.S. counterparts (director's age, shareholdings, tenure, principal job, other board seats), whereas in Austria, less information about board members is made available (principal job and, infrequently, other board seats).

Dual-board structures such as those found in Germany offer a structure of corporate governance whereby shareholders (and, often, workers) elect members of a supervisory board which then appoints and supervises a management board. The supervisory board assumes responsibility for monitoring company performance, while the subordinate management board tends to the company's day-to-day business. German supervisory boards, under the Berlin Initiative Code, have no managerial function, but serve as a check to the management board, which is the lead decision-maker for the company.

At the supervisory board level (or the unitary board level in France), issues of board size, nomination, qualification, composition, independence and compensation dominate country codes. Most E.U. country governance codes advocate that supervisory (or unitary) boards have a majority of independent members. Definitions of independence vary, from country to country, although all agree on excluding present executives, recently departed executives, executives' family members, controlling shareholders and dominant suppliers. In Germany, for example, the Aufsichsrat (supervisory board) is wholly comprised of outside directors representing both capital and labor who are elected at the annual meeting.

The German model is controversial in practice, however. For example, bank representatives are often powerful supervisory directors, and some banks even have board seats on several major companies, resulting in interlocking directorships. Also, if labor representatives on the supervisory board are antagonistic to management, or if the management board withholds information from the supervisory board, inefficiencies, deadlocks or worse problems could arise. Ger-

many does have a "comply or explain" governance code like that in the U.K., which means that these and other conflicts of interest should surface through disclosure, but again, there is no threat of regulatory or private class action penalties to stimulate reform.

Finally, the concept of one-share one-vote is not embraced in every European nation, and in fact, E.U. members are only beginning to sort out vestigial entitlements to multiple voting rights and other dual-class share questions. Moreover, the OECD principles are equivocal about equal treatment of shareholders in all circumstances, which indicates that the issue will not be resolved in the short term.

8.1.3 East Asia

Following the Asian financial crisis of the late 1990s, a series of five annual OECD-sponsored Round Tables convened under a mandate from the G8 to address the need for corporate governance reform as a requisite to sustained economic development in East Asia. The sense was that weak governance rules coupled with lenient state guarantees had enabled excessive company leverage while transparency and accountability were disregarded. Asset shifting within corporate groups and other conflict-of-interest abuses had contributed to excess and collapse.

The OECD/World Bank White Paper entitled Corporate Governance in Asia (2003) targeted six areas in need of reform: corporate governance; enforcement; adoption of international norms and best practices; board performance; minority shareholder protection; and bank governance. Most notable among the corporate governance issues are the family ties that are prevalent among boards of East Asian companies, and the tradition of appointing cozy, retired civil servants to boards of government-associated companies.

Stock exchange rules do not yet bolster governance in countries such as Hong Kong, Malaysia and Singapore, where little more than lip service is paid to the duty of directors to act in good faith and to disclose related-party transactions. The exchanges have little impact on directors absent fraud or other scandals. Shareholder voting rights are nominally strong in these countries, but shareholder access to information is comparatively weak. In fact, shareholder access to books and records is unknown in most of East Asia.

Indonesia's dual-board structure loosely follows the German model of a supervisory board comprised of independent "commissioners," while Hong Kong, Malaysia and Singapore follow the U.K. unitary model, although without requiring a majority of independent directors. It should be noted that in

Singapore, however, the Securities Investors Association of Singapore — the largest investor lobby effort of its kind in East Asia — is pushing for reform.

As for Japan, its enduring economic stagnation has not yet been met with energetic corporate governance reform. The Tokyo Exchange formed a governance committee in 2000 that published calls for governance enhancements, but less than 30 percent of listed companies have independent directors today. There is an optional new board of directors system proffered as a model, with nominating, audit and compensation committees comprised of majority outside directors, and Japan's Financial Services Agency has recommended auditor rotation and limits on non-audit work.

8.1.4 Mexico

Companies that list on the Bolsa Mexicana de Valores are overseen by their boards of directors and a statutory auditor who oversees company operations (not merely financial statements) and issues an annual report. The Bolsa, along with accounting professionals and representatives from the banking industry, drafted a code of corporate governance best practices in 1999, utilizing the OECD guidelines and following a "comply or explain" methodology. Only recently have most listed companies in Mexico formed and staffed audit committees, which report to shareholders at annual shareholder meetings.

8.2 Transparency International

An excellent source of international corporate governance practices is Transparency International (TI), a Berlin-based, non-governmental organization whose mission is to "curb corruption in international transactions." Each year, TI publishes the Corruption Perceptions Index, which "ranks more than 150 countries in terms of perceived levels of corruption, as determined by expert assessments and opinion surveys."[2] In 2005, 72 countries received a score of less than 3 out of 10, indicating that the level of corruption there should be considered "a daunting obstacle to sustainable development." Iceland ranked number 1, the U.S. was 17th, and Chad and Bangladesh tied for last place. China ranked 78th.

8.3 From Governance to Political Economy

Until 1972, the post-war political economy of corporations operating throughout the world was one underwritten by the U.S. through the Marshall Plan, the Bretton Woods agreement and GATT. That trio of measures and its associated institutional architecture made the dollar the center of the world's monetary sys-

[2] http://www.transparency-usa.org/.