PN-ACE-455

CORPORATE GOVERNANCE AND COMPETITIVENESS WORKSHOP

Sponsored by

The Securities Market Inspectorate of the Republic of Armenia,

in collaboration with

United States Agency for International Development Capital Markets Development Project

presented by

PricewaterhouseCoopers

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CORPORATE GOVERNANCE AND COMPETITIVENESS WORKSHOP
Armenia, February 1999

Course Objectives

Over the past few years, hundreds of Armenian firms have been privatized and turned into joint-stock companies while at the same time dealing with an increasingly competitive environment This PricewaterhouseCoopers workshop, funded by the United States Agency for International Development under the USAID Capital Markets Development Project is intended for directors of joint-stock companies, broker/dealers and government officials involved in the development of joint-stock companies The goal of the workshop is to provide practical information on setting up appropriate corporate government structures and procedures that will allow a company to adapt to its changing environment and access financing Topics covered include how to 1) set up effective Corporate Boards and Management structures, 2) modify the company charter to meet company needs, 3) organize annual general shareholder meetings and 4) provide information to shareholders Since the success of firms depends on strong corporate leadership, this workshop will also provide company directors with tools to help in evaluating business strategy and restructuring plans and discuss how good corporate governance practices can enhance a company's ability to access much needed capital for investment

This practical course will use a mix of lectures and case studies Simultaneous translation will be provided in Armenian

Length	*2 days*
Target Audience	*Executive Director and Company Board members of joint-stock companies, government officials and Broker/Dealers*

COURSE OUTLINE

MODULE 1 Corporate Governance in a changing environment

Objectives *Discuss the new environment surrounding the newly privatized firm and the differing interests of various stakeholders Provide a brief overview of the need for and benefit of good corporate governance*

Topics

A The firm and its environment in market economy

(1) Competitive environment
(2) Regulatory environment

B Stakeholders Conflicts and common interests

(1) Types of shareholders (Individuals, management, employees, state)
(2) Issues of control and protection of minority shareholders
(3) Interest of other stakeholders (Potential investors, public)

C Role of Corporate Governance

(1) Basic principles of good corporate governance
(2) Advantages of good corporate governance
(3) Lithuanian regulations

Case study Motores

MODULE 2 Corporate structure and decision-making mechanisms

Objectives *To discuss (i) the effectiveness of various corporate governance systems, (ii) the structure of Armenian corporate governance based on the joint-stock company law and (iii) enhancing board operations and decision-making*

Topics

A Models of corporate governance

(1) Overview of German, US and other models
(2) Effectiveness of each model

B Armenian corporate governance structure

(1) Roles and responsibilities of boards and shareholders
(2) Joint-stock company law and other regulation
(3) Company charter theory and practice
(4) Duties of individual board members

C Effective board operations and decision-making

(1) Use of committees
(2) Selection and compensation of board members

Case study Swarzedzkie Fabryki Mebli, Part A

MODULE 3 Shareholder relations and communications

Objectives *To discuss (i) fundamental shareholder rights, (ii) practical issues relating to the preparation and holding of a general meeting,(iii) fairness and transparency of voting procedures*

Topics

A Ownership

(1) Recognition of ownership and shareholder registry
(2) Limitations on ownership
(2) Managing shareholder expectations
(3) Protection of minority shareholders

B General Meeting

(1) Purpose of the General Meeting
(2) Shareholder notification
(3) Logistics
(4) Agenda

C Voting mechanisms

(1) Voting procedures ensuring fairness and transparency
(2) Proxy process
(3) Cumulative voting
(4) Shareholder proposals

D Shareholder communication issues in Armenia

MODULE 4 Financial reporting and information systems

Objectives *To discuss the various disclosure requirements on a public joint-stock company and the development of efficient and cost-effective internal management information systems to monitor performance*

Topics

A Public disclosure

(1) Financial reports
(2) Annual reports
(3) Prospectus

B Financial Reporting requirements in Armenia

C Financial statements

(1) Basic accounting principles
(2) Overview of standard financial statements
(3) Armenian vs International Accounting standards

D Management Information Systems

(1) Additional information required by management/boards for decision making
(2) Development of an effective and efficient information system

MODULE 5 Business and Financing Policy

Objectives *Enhance participants' ability to (i) evaluate the strategic position and strengths and weaknesses of the firm, (ii) evaluate restructuring options and (iii) understand the potential sources of capital*

Topics

A Business strategy

(1) Competitive analysis
(2) Business plan development
(3) Restructuring and investment decisions

B Business financing

(1) Financing options (domestic/foreign, debt/equity)
(2) Dividend policy
(3) Role of stock exchange
(4) Overview of Armenian capital markets

Case study Swarzedzkie Fabryki Mebli, Part B

Corporate Governance and Competitiveness - Armenia
Course Schedule, February 1999

DAY 1

09 00-09 30	Introduction
09 30-10 30	Case study Motores
10 30-10 45	Break
10 45-12 00	Module 1 Corporate Governance in a Changing Environment
12 00-12 30	Case study Individual reading SFM (A)
12 30-13 30	Lunch
13 30-15 00	Module 2 Corporate Governance Structure and Decision-making Mechanisms
15 00-15 15	Break
15 15-17 00	Case study Plenary session SFM (A)

DAY 2

09 00-10 30	Module 3 Shareholder Communications and Relations
10 30-10 45	Break
10 45-11 45	Module 4 Financial Reporting and Information Systems
11 45-12 30	Module 5 Business and Financing Policy
12 30-13 30	Lunch
13 30-14 15	Module 5 Continued
14 15-15 00	Case study Individual reading SFM (B)
15 00-15 15	Break
15 15-16 00	Case study Break-out groups SFM (B)
16 00-17 15	Case study Role play SFM (B)
17 15-17 30	Wrap-up

PRESENTATIONS

Module 1 Corporate Governance in a Changing Environment

Corporate Governance and Competitiveness

Workshop for Armenian Directors

Agenda

- **Module 1** Corporate Governance in a Changing Environment
- **Module 2** Corporate Structure and Decision Making Mechanisms
- **Module 3** Shareholder Relations and Communications
- **Module 4** Financial Reporting and Information Systems
- **Module 5** Business Strategy and Financing

Corporate Governance in a Changing Environment

Module 1

Module 1 Agenda

- The firm and its environment in a market economy
  - Competitive environment
  - Regulatory environment
- Stakeholders Conflicts and common interests
- Role of corporate governance

The Firm as an Entity

A firm is an independent legal person with rights and obligations

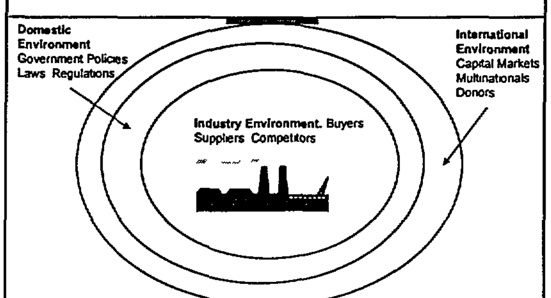
A firm is composed of
- Management
- Employees
- Intangible assets
- Physical assets

A firm s value to shareholders derives from how well all assets are employed to generate cash and profits

Shareholders own the firm and are represented by the Board of Directors

Directors are legally accountable to <u>all</u> shareholders

The Firm's Environment



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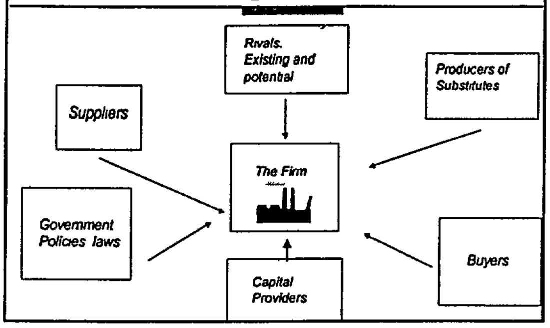
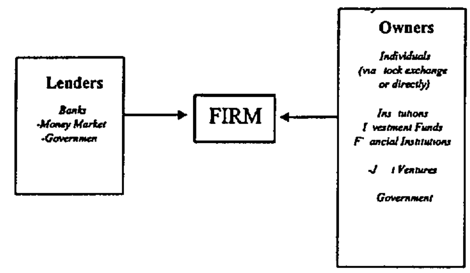
New Competitive Environment



Capital Providers



Types of Stakeholders

Includes shareholders who own the firm and other stakeholders who are affected by actions of the firm

Shareholders
- Individuals
- Employees
- Management
- State
- Strategic Investors
  Investment Funds

- Other stakeholders
  Community
  Potential investors
  - Banks
  - Buyers/Suppliers

Employee Shareholders

- Priorities
  - job security
  - salary increases
  - social benefits
  - dividends
  - increased size and reputation of firm

Management

- Priorities
  - job security and remuneration
  - increase reputation and size of firm
  - new technology
  - responsibility towards employees/community
  - financial performance of firm
  - dividends

Investment Funds & Outside Investors

- Investment Funds
  - Priorities
    - Increase share value
    - dividends (cash flow for operations)
    - influence on the firm to make required changes
- Individual investors
  - Priorities
    - dividends
    - increase share value

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Government

- Employment
- Stability
- Social benefits
- Taxes
- Environmental issues

Strategic Investors

- Priorities
  - strong influence or control of strategy
  - long term perspective
    - increase market access
    - to low-cost skilled labor
    - integrate into worldwide operations
  - dividends

Shareholder Objectives A Continuum of Interests

Common Frustrations

- New environment
- Uncertainty of future
- Changing laws and regulations
- Lack of information to make decisions
- Lack of experience
  - competitive market
  - procedures of corporate governance

Common Goals

- Viable long term enterprise resulting in profits and employment
- Increase in share value and dividends
- Access to outside capital and technology
- All shareholders are sources of additional capital for firm
- Reduction of corporate taxes

Achievement of Common Goals through

- Communication between shareholders and management
- Accountability of management
- Transparency of process
- Manage shareholder expectations
- Provide information

Corporate Governance - Why ?

A tool for achievement of common objectives

- Adoption of sound corporate governance practices helps ensure efficient running of an enterprise and enhances value to shareholders while protecting rights of all stakeholders

Corporate Governance - What ?

- Defines
  - -Rights of shareholders on the firm
  - -Relationship between shareholders and their representatives (Board of Directors)
  - -Roles and responsibilities of Board members and management (as Boards and individually)
  - -Structure of the organization
  - -Responsibility of the firm towards other stakeholders
  - -Procedures and guidelines

Principles of Good Corporate Governance

- Transparency
- Disclosure
- Loyalty
- Accountability
- Legality

Advantage of Good Corporate Governance

- Access to capital (debt and equity)
- Access to domestic and foreign investment
- Protects directors/managers from legal action
- Increases efficiency of decision making
- Increases public faith and trust in reform

Different Approaches to Corporate Governance

- But all companies in a market economy share basic characteristics
  - -General Meeting a mechanism for guaranteeing shareholder participation in corporate decision making
  - -Management structure responsible to General Meeting
  - -Shareholder right to sue or seek redress

Different Approaches to Corporate Governance

- Globalization of trade and capital are leading to convergence of governance practices
  - -Increased disclosure
  - -Increased protection of minority shareholder rights (voting mechanisms)
  - -Increased transparency

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Corporate Governance Summary

- Corporate governance is a process which enhances the competitiveness of the firm while balancing the needs of the shareholders with those of other stakeholders

The Armenian Corporate Governance Model

- Shareholders
- Company Board

Executive Director and Administration

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Module 2 Corporate Governance Structures and Decision-Making Mechanisms

Decision-Making Mechanisms in the Company

Module 2

Module 2 Agenda

- **Corporate Governance structure**
  - Roles and responsibilities of shareholders and boards
  - US and German models
  - The Armenian model
  - Duties of individual Board members
- **Effective board operations and decision-making**

International Corporate Governance Models An Overview

- Why ?
  - Armenian laws and regulations are adapted from these models
  - Adapt lessons learned from other systems to Armenian reality
  - Foreign investors expect Armenian firms to follow internationally accepted corporate governance principles

Shareholders Common International Standards

- Ultimate authority in the firm
- Economic interest is realized through dividends and/or increase in share value
- Exercise authority through voting at General Meeting electing representatives to the Boards and voting on major issues

Generally Accepted Shareholder Rights

Right to vote at shareholder meetings

Right to sell or transfer shares without approval or unreasonable costs/procedures

Right to dividends

Right to information concerning enterprise

Right to fair and equal treatment of shares of same class

Right to enforce loyalty and adherence to the company charter by their representatives (directors and managers)

Liability limited to initial investment

Shareholders What they Should Not Do

- Due to lack of information and knowledge it is preferable that they do not get involved in
  - day to-day operations
  - specifics of long term business plans
  - selection of management
  - buying and selling of assets in normal course of business

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Structure of Corporate Governance in Market Economies

- A modern corporation requires that two very distinct functions be fulfilled

Managing and Directing

Roles of Management and Directors

	Directors	Management
Responsible for	Approving long-term strat gy Approving financing Approving Major investments Ensuri g that management is operating within: *he Art cles f Incorporation* *Goal et out by General Meeting of Shareholders* *Legal framework* Ensuring accuracy f the f nancial statements	Develop g lo g term strategy Planning f nancial req irements Managi g f rm operations on a day-to-day basis Ensuri g accuracy f the f nancial tat ments

Role of Directors/Managers

- The role of Directors should be dynamic
  - As the environment changes and as the firm acts to change its environment, corporate survival and growth will depend on the extent to which the firm can use the special talents and skills from management and its directors
- But the one unchanging and basic goal and function of Directors/Managers is to ***Enhance Shareholder Value***

Determinants of Corporate Governance

Attitudes & Politics

↓

Financial Organizations & Markets

↓

Corporate Ownership Structure

General Comparison US and European Models

- US
  - One tier system
  - Wide dispersion of shareholder power encouraged by anti trust legislation
  - Management Use of Proxy Vote for Control
  - Greater use of courts to test and settle shareholder disputes
- Europe
  - Mix of tiers
  - Interlocking directorates and concentration of shareholder power
  - Proxies used by large shareholders to control voting blocks
  - Less litigation and more reliance on backroom consensus
  - Employees have role in governance

German Model - Lessons learned

- Pros
  - Longer term outlook and investment planning
  - Stability
  - Strong information handling and decision making systems
- Cons
  - Discourages new ideas and limits entrepreneurial leadership
  - Slower adaptation to changing competitive environment
  - Risks of conflict of interest (banks as lenders and representative of shareholders)

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U S Model - Lessons Learned

- Pros
  - Ease of exit, if shareholder unsatisfied with performance
  - Able to adapt quickly
  - Threat of takeover has accelerated needed restructuring
- Cons
  - Directors/Management tend to be short term oriented (influenced by stock market and short term contracts with firm)
  - Removal of management in under performing firms has been slow due to management dominated boards

US Board Structure - Outside vs Inside Directors

- Good corporate governance suggests that a majority of Board members should be independent outside directors so that Board may objectively oversee performance of management
- Additional advantage of outside directors is to acquire expertise and increase contacts
- Recent trend is moving towards a majority of outside directors on the Board
- Recent debate on the independence of outside directors For example the nomination of the firms consultants and lawyers to the Boards

Checks and Balances on Management Performance Role of Financial Markets

- Markets discount share value of poorly managed and poorly performing companies
  - Markets judge company performance together with industry performance and overall economy
- Opportunity cost and risk
  - Global competition and ease of capital flows discipline inefficient management
  - Institutional and strategic investors have many more options today

Armenian Corporate Leadership

- **Three levels of oversight in joint stock company**
  - Shareholders General Meeting
  - The Company Board / Chairman of the Company Board
  - The Executive Body / Company Executive Director

Charter

- Includes
  - Definition of general scope of business activities
  - Authority of and procedures for holding General Meetings
  - Board of directors and management board Number of members definition of powers and decision making mechanisms
  - Principles of distribution of profits
  - Procedure for modifying capital stock
  - Procedure for amending charter

Statutory Role of the Company Board

- Ultimate authority between shareholder meetings (within powers specified in charter)
- Appoints and dismisses Executive Director
- Oversee activities of management
- Determines compensation of Senior Management

Role of the Company Board

- Provide advice to company management
- Ensure that company procedures comply with laws and regulations
- Attempt to balance employee/social factors with interest of shareholders
- Conduct General Meeting
- Not be involved in the day to day management

Company Board - Composition

- Determined by charter but minimum specified by regulations and should be an odd number
- Individuals elected for a fixed term but can be replaced at anytime by shareholders, at a General Meeting

Outside vs Inside Directors

- Good corporate governance suggests that a majority of Board members should be outside directors so that board may objectively oversee performance of management
- Additional advantage of outside directors is to get expertise and contacts

Executive Director and Management - Role

- Primary executive body of the firm
- Conducts day to-day operations of the firm (within guidelines set by the charter and the Company Board)

Management Role

- Senior managers have critical role in success of firm
  - Manage day-to-day operations
  - Execute decisions made by Company Board/General Meeting
  - Develop short and long term strategies
  - Plan financial requirements and financial monitoring systems
  - Understand changing market environment
  - Communicate and motivate employees

Legal Responsibility of Directors

- **Fiduciary role** People in whom others place a special trust and confidence and are therefore subject to duties of care and loyalty Directors represent <u>all</u> shareholders
- **Care** Involves concern attention and diligence that directors are expected to exercise in discharging their duties In good faith in a manner one believes is in the best interest of the firm
- **Loyalty** Director's obligation to subordinate self interest to the interest of the firm when the two conflict

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Board Operations

- Ensure transparency
  - Minutes of the Board meetings available to shareholders
  - Clear voting procedures and disclosure
  - Recruitment of truly independent Board members
- Increase efficiency of Board operations
  - Use of committees
- Monitor performance
  - Set up appropriate information system
- Manage shareholder expectations

Board Operations Use of Committees

- Advantages of Committees
  - Focus attention on areas critical to firm success
  - Harness expertise of individual directors to benefit of company and management
  - Help management monitor a rapidly changing environment (early warning system)
  - Help manage relations with external environment

Types of Committees

- Committees should specialize in specific critical areas
  - Audit committee
  - Executive (strategy) committee
  - Compensation committee
  - Nominating committee (nominating new board members)

The Audit Committee Contributions to Corporate Performance

- Should do more than perfunctory consent to accounting policies and procedures
- Should periodically review high exposure areas
  - procedures under stress because of changes in the external business environment e g adequacy of reserves for future losses as result of special promotions and credit practices

Executive (Strategy) Committee

- Can help management by outlining key strategic issues which need to address
- Can help management by selling strategy to general meeting and key actors such as suppliers creditors

Nominating Committee

- The Corporate Board must identify and recruit top talent, but the committee can make job easier by
  - formulating selection criteria that include professional expertise availability age etc
  - identifying and compiling information on candidates
- Important to find members who will constructively examine important/strategic issues

Compensation Committee

Ensure incentives for management congruent with company needs and external challenges

- Should evaluate
  - how much to salary to pay
  - the proportion of total remuneration represented by salary
  - The balance between short and long term performance incentives

Evaluate management succession plans

Organize annual management performance review

- Committee should be made up of non management members

Rights of Armenian Shareholders

- **A Shareholder Owning Common Shares is entitled to**
  - voting rights a general meetings (according to shares)
  - participate in management of Company
  - receive dividends from Company profits
  - acquire allocated shares on priority basis
  - receive information on Company activities
  - authorize third person to represent rights at meetings
  - make proposals at the shareholders meetings
  - appeal to court regarding decisions
  - receive pre determined part in case of liquidation/capital accumulation
  - sell or transfer owned shares to other persons

Control Commission

Definition
Represents interest of shareholders and oversees auditing activity of the firm

Composition
Elected by shareholders for 3 years
Cannot be member of Company Board or Executive Body

Role
Effectuates financial review at its own initiative or upon demand of shareholders possessing more than 10% of shares
Ensures compliance of management bodies decisions according to laws and charter
Right to demand from company officials all necessary documents and explanations
Can convene extraordinary meeting if detects serious threat to firm

Armenian Corporate Leadership

- **Three levels of oversight in joint stock company**
  - Shareholders General Meeting
  - The Company Board / Chairman of the Company Board
  - The Executive Body / Company Executive Director

Armenian Company Board Members

Members elected to 1 year term

Shareholders with 10% or more can nominate member

If more than 500 voting shares cumulative voting

Member or the Board shareholder or shareholder or non shareholder if charter permits

Majority of Board must be non executive members

Chairman elected by Board

Module 2 Summary

- All systems of corporate governance continuously evolve and adapt to changing environment
- Constant evolution requires transparency and information to all stakeholders
- No system of governance is perfect

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Module 3 Shareholder Communications and Relations

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Shareholder Communications and Relations

Module 3

Module 3 Agenda

- Ownership
  - Recognition
  - Protection of minority shareholders
- Voting mechanisms
  - Voting procedures
  - Proxy process
  - Cumulative voting
  - Shareholder proposals
- General Meeting
  - Agenda
  - Logistics

Recognition of Ownership

- Recognition of ownership is essential in order for shareholders to exercise their rights to dividends to voting at General Meetings and to selling their shares
- Methods
  - Stock certificates (Named or bearer)
  - De materialized shares
  - Shareholder registry
  - Beneficial vs nominal owner

Shareholders' Registry

- What is it?
  - A reference of all transactions and the identities of shareholders
  - Should include
    - shareholder s name and place of residence
    - number and class of shares
    - date of acquisition

Shareholders' Registry

- Why maintain it?
  - Legal requirement for all publicly held companies
    - Increases transparency improves shareholder & investor relations
  - Only official record of share ownership without being registered, shareholders cannot vote or receive dividends
  - Management is required to maintain accurate records and register transactions on a timely manner
  - Registry should be accessible to all shareholders for proper corporate use

Shareholder Registry - In-house

- Advantages
  - Increase control of sensitive information
  - Ease of monitoring changes
  - Potentially closer contact with shareholders
- Disadvantages
  - Potential conflicts of interests
  - Lack of expertise
  - Lack of computer capabilities
  - Time and cost

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Shareholder Registry - Outside Agent

- Advantages
  - Increased transparency
  - Specialized agency has more expertise and computer capabilities to provide efficient service
- Disadvantages
  - Management remains responsible if agent is not competent
  - Loss of control
  - Cost

Establishing Voting Procedures

- To make the voting process proceed smoothly and to ensure transparency, firms must adopt policies with regard to
  - Board nominations
  - Shareholder proposals
  - Recognition of ownership and setting a record date
  - Recognition of power of attorneys/proxys
  - Confidentiality of voting
  - Neutrality of voting inspectors

Shares - Legal Status

Authorized shares
: Number of shares that can be issued by firm according to charter

Issued shares
: Number of shares that have been sold to the public

Outstanding shares
: Number of shares issued minus shares repurchased by the firm
: Only outstanding shares have voting rights and receive dividends

Treasury shares
: Repurchased by the firm from the public
: Do not have rights to vote or dividend

Protection of Minority Shareholders

- Directors have a fiduciary responsibility to *all* shareholders
- Super majority voting on key issues (66% 75%)
- Cumulative voting (i e Proportional representation on Board of Directors)
- Quorum Requirements
- Preemptive rights on new share issues (Offer new issues proportionally to existing owners)
- Increase efficiency of secondary market (ease of exit)

Proxy Process - U S Experience

Goal Firm must facilitate the voting process in order to give shareholders their voice in corporate governance and attain a quorum

The firm includes with the Notification of the General Meeting
- Proxy Statement, including
  - Board Proposals
  - Shareholder Proposals
- Proxy Card
  - allowing the shareholder who cannot attend General Meeting to vote or transfer voting power on one or all issues to a designee

Elements of a Proxy Statement - U S Example

- Explanation of voting procedures both for proxy and in-person
  - Information on board nominees including
  - Background professional affiliations
  - Compensation and share holdings
- Information on other Board initiatives
- Shareholders Proposals
  - Shareholders' statement of support
  - Board s response

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Proxy Card - U S Example

- Based on information in the proxy statement shareholders can vote on specific issues or empower a designee to vote on their behalf
- The designee is empowered to vote on the shareholder's behalf only on that particular occasion
- Shareholders can limit their proxy s voting power to particular issues
- Shareholders can cancel a proxy at any time

Qualifying Shareholder Proposals - U S Experience

- Not all shareholder proposals should be included in a proxy statement and be voted on at a General Meeting Examples of common criteria include the following
  - The proposal can be initiated by a shareholder controlling a significant number of shares (i e Russia 10%)
  - The proposal must be concerned with matters of corporate policy not operational matters
  - The proposal must not interfere with the board s discretionary authority previously granted by the shareholders
  - Proposal must be sent to Board in advance (45 90 days) of the mailing of notification of the General Meeting

Qualifying Proposals

- Since Russian shareholders are unfamiliar with the proposal process firms should
  - devise a method for apprising stockholders of criteria proposals must meet to be accepted at the general meeting and
  - determine what rules will apply to proposals brought up during the general meeting

General Meeting

- Required by Joint stock Company Act and must be held once a year
- Shareholder's primary vehicle for exercising their rights
- Board must ensure transparency clear procedures and equal treatment of shareholders
- General Meeting requires substantial planning

Purpose of the General Meeting From Shareholders' Perspective

- Vote for directors and other major issues
- Make first hand judgments about quality of directors/management
- Voice concerns about major issues and ask for additional information during Q&A
  - Corporate governance issues
  - Major strategic decisions
  - Firm policies
  - Financial performance
- Formally suggest a course of action to management via a shareholder proposal

Purpose of the General Meeting From Management's Perspective

- Get required shareholder approval for board recommended actions
  - amending the Charter
  - electing members to the boards
  - approving issuance of dividends
  - approving issuance of new shares
- Strengthen current and potential investors image of the firm

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Logistical Preparations for a General Meeting

- In preparing for a General Meeting provisions must be made for the following
  - Prepare notification and agenda
  - Prepare voting procedures
  - Meeting room facilities registration procedures and security
  - Food or other amenities to be provided to attendees
  - Any organization of company tours or product displays which will complement the meeting
  - Press coverage or public relations

Notification of General Meeting

Goal To provide notification of the General Meeting in a timely and effective manner to all shareholders

- Includes
  - Date time and place of meeting
  - Meeting Agenda (Items to be voted upon)
- Method
  - Issued a minimum of 30 days prior to meeting
  - Sent by mail or via newspaper advertisements according to charter

Notification of Shareholders

- All shareholders listed on the shareholder registry on the record date must be notified of the General Meeting
- Record date is the date set by the firm which determines which shareholders are entitled to vote at the General Meeting
- Record date should between 60 and 90 days prior to meeting

Meeting Program

- Prepared by Board of Directors and includes
  - Election of Meeting chairman, minutes clerks and voting inspectors
  - Opening remarks by Chairman
  - Chairman's Report
  - Audit Commission report
  - Voting by shareholders
  - Questions and comments from shareholders

Matters to be Voted on by Shareholders

- Issues Proposed by Directors i e
  - Amendments to Charter
  - Nominations for Board members
  - Approval of Dividends
  - Other Issues
- Qualifying Shareholder Proposals

Questions and Comments from the Floor

- Shareholders may want to question directors about
  - financial soundness of the firm
  - plans to restructure
  - potential investors
  - social benefits
  - shareholder dividends

Armenian Shareholders General Meetings

- Held once a year 2 6 months after fiscal year
- Time between meetings not to exceed 18 months
- Publishing of notice/agenda 30 days
- Determine eligible shareholders max 60 days
- Shareholder can delegate representative to vote
- Quorum 50%

Armenian Shareholders Authority
(Article 70)

- Approve charter make amendments
- Reorganize Company
- Tasks related to liquidation
- Make up and election of Corporate Board / Control Commission
- Define maximum shares face value annual dividend payment payment terms
- Acquisition and buy back of allocated shares
- Approval on financial statements
- Creation and approval for decision dealing with branches

Module 3 Summary

- Growth of the firm depends on access to capital

- Access to equity capital depends on existing shareholders and potential new investors confidence in the structure and procedures within the firm which would enable them to make changes when required to protect their investment

Module 4 Financial Reporting and Information Systems

Financial Reporting and Information Systems

Module 4

Module 4 Agenda

- Public disclosure
  - Annual report
  - Prospectus
- Financial statements
  - Accounting principles
  - Overview of primary statements
- Management Information Systems
  - Information needs
  - System development

Public Disclosure Goal

- To provide all shareholders the public and the regulatory bodies equal access to fair and accurate general and financial information on the activities of the firm on a regular basis

Types of Disclosure

- Periodic disclosure
  - Annual report
    - audited financial statements

Special disclosure
  - Prospectus
  - Extraordinary events

Public Disclosure - Why ?

- For shareholders and lenders
  - Primary source of information
  - Evaluate management performance
- For potential investors
  - Compare performance relative to other investments
- For state regulators
  - Ensure compliance with regulations
- For the public
  - Full disclosure increases trust in the markets and market reform

Elements of an Annual Report

- Chairman s and/or CEO s (Executive Director) message to shareholders
- Audited financial statements
- Business unit review
- Information on Board members and management
- General information

Chairman and Executive Director's Letters to Shareholders

- Questions to address
  - How well did the firm meet its financial and strategic performance goals?
  - What drove firm performance and what detracted most from it?
  - What is the overall strategy for the immediate future?

Financial Information

- Includes
  - Balance Sheet
  - Profit and Loss Statement
  - Cash Flow Statement
  - Notes to statements
  - Auditor's report
  - Summary of accounting policy
- Management should comment on
  - Significant changes in financial results from past years
  - Provide information of new public offerings
  - Future events which may materially affect financial situation of the firm

Business Unit Review

- Provide a synopsis of financial and strategic performance for each business unit Include comparisons over past few years and forecasts for
  - sales
  - profits
  - capital investments
- Note reasons for any significant restructuring and management changes

Information on Board Members and Senior Management

- Include
  - Names titles and principal affiliation of board members
  - Members of Board committees
  - Names and responsibilities of senior management

General Information

- Include
  - Headquarters address and phone
  - Shareholder contact for additional information
  - Name and address of independent auditors

Methods of Disclosure

Goal Adequate and equal access to relevant information by shareholders and the public

Direct mailings to shareholders
- Costly
- Financial statements not understood

Publication
- Inform shareholders of access to information
- Mail upon request

Special Disclosure - Prospectus

- Prior to issuing new shares or bonds, a firm must provide adequate information for individuals to make buying decisio
- Prospectus must be approved by Ministry of Finance/Securit Commission

Elements of a Prospectus

Basic information
- Information on primary shareholders
- Board of Directors members and senior management

Financial information
- Present and past audited statements
- Information on loans and bonds

Business activities
- Competitive situation (i e. Market share)
- Past capital investments
- Overall business strategy
- Planned investments

Information on security issue
- Type of security (share bond)
- Date of issue
- Distribution

Special Disclosure - Extraordinary Events

- Goal Inform shareholders the public and the regulator of major events which could substantially affect the value of the shares or the future of the business such as
  - Bankruptcy proceedings
  - Major lawsuit
  - Significant changes in senior management
  - Takeover attempt

Basic Accounting Principles

- Statements provide a fair and accurate representation of the firm s activities
- Based on recognized International Accounting Standards
- Consistent use over time of accounting principles
- Going concern
- Prudence
- Limit subjective judgment

Principal Financial Statements

Balance sheet
Income statement
Cash flow statement

- Statements should be accompanied by additional explanations
- Statements must be audited by independent and qualified auditors to ensure use of good accounting principles and procedures

Principle statements represent past results They do not reflect future results

Balance Sheet - Present Situation

Helps answer

- How much is the company theoretically worth at one point in time?
- Where did money come from?
- How was the money spent ?
- How much is immediately available in cash?

Balance Sheet - Example

(December 31 1998)

ASSETS		LIABILITIES & EQUITY	
		LIABILITIES	
Cash	25	Accounts Payable	20
Accounts Receivable	30	Short-term Debt	30
Inventories	35		
Total Current Assets	90	Total Current Liabilities	50
		Total Long-term Debt	47
Gross Fixed Assets	115		
Less Accum Depreciation	47		
Net Fixed Assets	68	TOTAL LIABILITIES	97
		SHAREHOLDER'S EQUITY	61
TOTAL ASSETS	158	TOTAL LIABILITIES & EQUITY	158

Balance Sheet
Where did the money come from?

- Share capital Owners money
- Retained earnings Past profit undistributed
- Loan capital Someone elses money

Value of shares

Par value
- Nominal value not significant

Book value
- Accounting value. Assets minus liabilities
- Not necessarily good indicator of future value

Market value
- Present price of shares on secondary market.
- Market prices are based on investor expectations of future profits
- Price affected by past performance dividend policy macroeconomic factors potential mergers/takeovers
- Change in market value does not affect financial statements of the firm
- However can affect cost of issuing new shares in the future

Profit & Loss Statement

- *A Profit & Loss statement measures profits (or losses) over a certain period of time **It helps answer***
  - *Where did revenue come from in past year?*
  - *What expenses were incurred?*
  - *Did the firm make a profit or a loss during the year?*

It is defined as

Net Income = Revenues Expenses

Profit & Loss - Example

(01/01/98 31/12/98)

Revenue	100
Direct Costs	40
Gross Profit	60
Operating Expenses (incl depreciation)	15
Operating Profit	45
Interest Expenses	10
Income Before Taxes	35
Income Tax (40%)	14
Net Income	21

Profit & Loss Statement

- Does NOT indicate which products are generating profit
- Does NOT indicate how much cash was generated
- Does NOT look at how much cash was invested to generate profit

Cash Flow Statement

Cash Flow =

Net Income + Depreciation Capital Investment + Working Capital

Working Capital = Current Assets Current Liabilities

CASH FLOW EXAMPLE (01/12/98-31/1_/98)

FROM OPERATIONS			
+ Net Income	21		
+ Depreciation	12		
Increase in Net Working Capital	15		
Cash Flow from Operations	18		
FROM INVESTMENT			
+ Sale of Assets	0		
Purchase of New Assets	15		
Cash Flow from Investment	15		
FROM FINANCING			
+ Short-term debt	10		
Long-term debt	13		
Cash Flow from Financing		3	
NET CHANGE IN CASH FLOW			0

Why Concentrate on Cash Flow?

- Cash Flow provides resources for
  - paying suppliers
  - paying employees
  - making capital expenditures
  - repaying debts
- A company will cease to exist without sufficient cash flow

Management Information Systems

- Provide information for
  - Decision making
  - Public disclosure
  - Filing corporate income tax
  - Regulators and government statistics

Decision-Making Process

- Gathering selecting and summarizing information
- Analyzing information
- Planning and goal setting
- Budgeting
- Monitoring performance

Adequate and efficient management information systems are crucial to good decision-making by directors and managers and therefore to the success of the firm

Information Required

- Internal
  - Operational information such as
    - Plant efficiency
    - Delivery turnaround
  - Management accounting such as
    - Sales by product
    - Profitability by division
- External
  - Competitive information such as
    - Market share

Management Accounting

- Differences with Financial Accounting include
  - No standard format and not regulated
  - Intended to plan future rather than describe the past
  - Less emphasis on precision
  - Focuses on parts as well of the whole of an organization
  - Includes more non monetary information

It is means to an end rather than an end in itself

System development Identify Criteria & Characteristics

- What information do you want this new system to provide?
- Characteristics
  - what personnel needs?
  - what technology needs?
  - what information needs?
  - what organizational needs?

Identify Problems with Present System

- Design
  - Past system designed for state planning and control not decision making information
  - Considerable amounts of data No selection
- Organizational
  - Information flow top to bottom only
- Personnel
  - Lack of understanding of new information requirements and techniques
- Technology/Computerization

Determine Options

- Examine possible systems that will meet your criteria and needs
  - cost/benefit analysis
- Prepare for implementation

Implementation

- Define project priorities risks and availability of resources
- Address transition issues
  - determine interim organization
  - financial cost length of transition organizational disruption
  - short/long term staffing and equipment needs
  - schedule must be realistic & practical

Management involvement
  - monitor progress regularly
  - continuously update system to changing needs

Module 4 Summary

- Success of the firm depends on
  - access to capital
  - fulfilling regulatory requirements
  - development of competitive strategy
  - implementation of competitive strategy

The key to success is information

Module 5 Business and Financing Policy

Business and Financing Policy

Module 5

Module 5 Agenda

- Business strategy
  - Competitive analysis
  - Business plan development
  - Restructuring and investment decisions
- Business financing
  - Capital markets (domestic and foreign)
  - Debt vs equity capital
  - Share issues and dividend policy

Corporate Leadership Managers and Directors Must

- Understand changing environments potential threats and opportunities
- Analyze strengths and weakness of the firm
- Develop short and long-term business plans
- Communicate and implement plan effectively
- Monitor performance and continuously adapt to changing environment

Key Strategic Issues Facing Management and Directors

- Management & organization
  - management incentives and oversight
  - personnel training and motivation
  - marketing awareness & strategy
- Operations
  - business focus
  - productive efficiency per international standards
  - price quality and availability of inputs

Key Strategic Issues facing Management and Directors (cont'd)

- key financial issues
  - lack of cash
  - lack of cost controls and information
  - working capital quality of accounts receivable
  - current levels of debt current creditors
  - access to new capital

Addressing these Strategic Issues Requires

- Creating new management information systems
- Defining strategic objectives
- Focusing on core business units
  - Based on analysis of external competitive forces and internal strengths and weakness'

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Analysis of External Competitive Forces

- Intensity of Rivalry
- Power of Buyers
- Power of Suppliers
- Threat of New Entrants
- Threat of Substitutes
- Government Policies

Analysis of Internal Strengths and Weaknesses

- Management
- Human Resources
- Production and Operations
- Marketing
- Distribution
- Information System
- Capital Structure

Strategy Analysis

Beware of how the following can lead to faulty logic and poor strategy choices

1 **The tendency to underestimate uncertainty** do not become overconfident in projections and estimates
2 **Overemphasizing selected data** do not become seduced by colorful reports interesting anecdotal information
3 **Becoming too attached to one scenario** do sensitivity analysis
4 **Seeing opportunities only incrementally** think imaginatively and dare to break out of the old mindset.
5 **Seeking only confirming evidence** look for what will cause your strategy to fail not just support your initial predisposition
6 **Using inappropriate analogies** do not assume that because a strategy worked in one industry or segment it will work in another

Business Plan Your Tool

- a key tool of **general** business management to
  - review past performance
  - develop strategy for the future
  - raise capital
  - plan restructuring

Business Plan (cont'd)

- What the business plan should be
  - a tool for strategy and implementation
  - focused on a specific time period
  - flexible and forward looking
  - clear concise and readable
  - easy to communicate

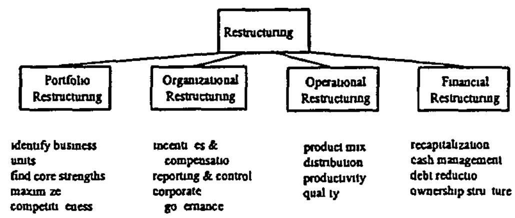
Business Plan (cont'd)

- What the business plan is not
  - a five year plan for each company
  - a rigid outline of production targets and input requirements
  - a treatise on the business and its history

Contents of the Business Plan

Business Restructuring

There are four basic approaches to enterprise restructuring and each has a specific objective.



Portfolio Restructuring

Key goals of portfolio restructuring are to focus on core strengths and maximize competitiveness of core business units

<u>Steps</u>

Identify business units
Evaluate business attractiveness/competitiveness
Evaluate interdependence among business units
Identify core competence of the company
Sell off or liquidate weak and/or non core business units

Portfolio Restructuring (Cont'd)

Should business units be merged? expanded? decentralized? sold? closed down?

What units are generating the highest profits? greatest cash flow?

What units are generating the greatest losses? draining cash flow?

What units contribute the most to revenues? expenses?

- What are the most highly valued assets of the company?

Organizational Restructuring

- Involves changing methods of doing business

Internal communication
- Create reporting lines
  Management information systems

Creation of responsibilities and accountability

- Streamline labor costs/optimize efficiency

Evaluate compensation and incentives

Recruitment of qualified personnel

Operational Restructuring

- Change product mix
- Find new distribution channels
- Improve marketing and selling activities
- Improve production process
- Increase quality control
- Create useful management information systems

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Financial Restructuring

- Ensure efficiency in managing cash flows
- Dispose of non-core and inefficient assets
- Restructure repay, and refinance debt
- Identify suitable partners Find the right fit

Roles of Management and Directors in Restructuring

- **Directors**
- Evaluation and recruitment of new management (if required)
- Communication with external stakeholders
- Review of overall business strategy
- Approval of changes in capital structure

- **Management**
- Internal communications
- Design and implementation of information systems
- Working capital management
- Develop strategy and restructuring implementation plan
- Estimate future capital requirements

Capital Investment

- Expand production facilities?
  - What kind of equipment? plant? technology?
- Is additional land required for expansion?
- What financial resources are currently available for these options?
- What financial resources will be required/available for these options?
- *How much cash will the firm require ?*

Cash Flow Forecast - Future Planning

- Where is cash going to come from?
- What is cash going to be spent on?
- Will there be enough cash for on-going operations a for new investments?
- When is the cash going to come in?
- When is cash going to be paid out?

Sources of Capital

- Internal Sources of Cash
  - Retained earnings Undistributed past profits
- External Sources of Cash
  - Loan capital
  - Equity

Dividend policy

Policy must balance needs of the firm and expectations of shareholders and the market

Needs of the firm
- Cash flow situation
- Capital investments
- Cost of other types of funds

Expectations of shareholders
Looking for growth in share value or steady income
Can firm use retained earnings to make future profits
Looking for consistent dividend policy
Tax treatment of dividends vs capital gains

Buying of Shares by Firm

- Purpose
  - Reduce size of firm and number of shareholders
  - Increase leverage (mix of equity and debt)
  - Increase earnings per share in order to increase value of shares
- Method
  - Buy on secondary market
  - Tender offer
- Affect
  - Potential increase in value of shares

What is the cost of capital ?

- Equity
  - Pros
    - No compulsory payments
  - Cons
    - More expensive due to higher risk for investor
    - Dilutes ownership

    Dividends not tax deductible
- Lenders
  - Pros
    - Less expensive due to lower risk for investor
    - Some interest is tax deductible
  - Cons
    - Compulsory periodic payments

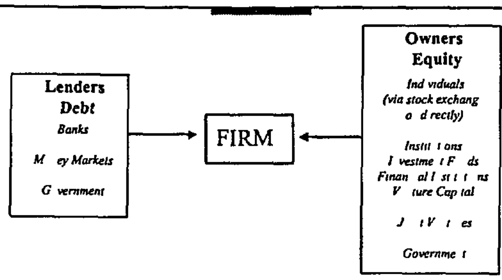
Cost of Capital and Risk Premium

- Risk How likely is it that investor will receive his principal investment and additional earnings?
- Sources of risk
  - Business operations How volatile is the profitability of the firm?
  - Financial leverage The more debt a firm has the riskier it is
  - Country risk How do macroeconomic and political factors affect the firm

Debt vs Equity Capital

- Depends on
  - Attractiveness of the firm
    - Existing level of debt
    - Company risk
  - Availability of capital
    - Liquidity of the market
  - Transaction
    - Speed
    - Costs
    - Disclosure requirements

Capital Providers



Expectations of Lenders

- Expect higher return than risk-free rate (i e government bonds)
- Risk of default on payments (Leverage)
- Secured or unsecured

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Domestic Loan/Bond Market Characteristics

- Loans
  - Availability of capital
    - Solvency of banks
  - Stringent collateral requirements
  - Primarily short-term loans
  - High interest rates
- Bonds
  - No liquidity in the market
  - High transaction costs

Expectations of Equity Providers

- Expect higher return than lenders
- Dividends and growth in share value
- Increased control

Role of the Stock Market

- Organized exchange where securities (shares) are traded
- Facilitates raising of capital
  - by facilitating trading of shares and ensuring liquidity
- However is not a provider of capital in itself
- In order to function effectively
  - access to accurate information
  - even playing field (no insider trading)
  - transparent and rapid transactions
  - low transaction costs

Domestic Equity Market Characteristics

- Limited liquidity
- Pricing inefficiency due to lack of integration of stoc markets and off market transactions
- Transaction costs and delays
- Lack of enforcement of regulation
  - Disclosure requirements
  - Insider trading
- Ownership restrictions (Investment Funds)

Globalization of Capital Markets - Why?

- Liberalization of financial markets
  - Privatization
  - Reduced government regulations
- Instant Communications and Computerization
- Institutionalization
  - Professional management of capital
  - Large mutual funds, pension funds and insurance companies with global networks
  - Creation of variety of new financial instruments

Emerging Markets

- Dramatic growth
  - 1983 $ 500 million (estimate)
  - 1994 $ 50 billion (estimate)
- Why are international investors interested ?
  - Diversification of risk
  - Attractive returns
  - Increasing liquidity of emerging markets
  - Strong economic growth prospects

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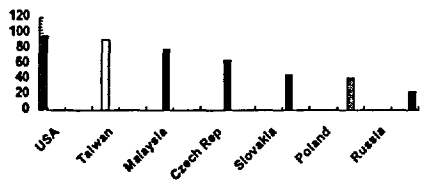
Emerging Markets - Country Risk

Country Risk Ratings March 1994



Source Euromoney March 1994

Portfolio Investor

- Objective of the firm
  - Capital
- Objectives of the investor
  - Good and quick return
  - Ease of exit

Framework for the Strategic Investor

- Objectives of the firm
  - management know how
  - technology
  - marketing and access to markets
  - capital
- Objectives of the investor
  - adequate return
  - access to market
  - local knowledge
  - integrate into worldwide strategy

Issuance of Shares by Firm

- Issuance of shares
  - Purpose Raise capital for capital investments
  - Method
    - Private placement
    - Rights offering (offers shares to existing owners)
    - Non rights offering
  - Effect Dilutes ownership and can reduce market price of shares

Issuance of New Shares - Process

- Determine capital requirements
- Approval of existing shareholders
- Public vs private offering
- Prepare prospectus
- Select underwriter and distributors
- Fulfill regulatory requirements
- Estimate share issue price
- Issue new shares

Module 5 Summary

- Objectives
  - Short term survival
  - Long term growth
- Tools
  - Short term Cash management
  - Long term Business strategy restructuring and re financing
- Key to success
  - Corporate leadership from directors and management

Case studies

PRICEWATERHOUSECOOPERS

Motores, Inc *

Carlos Perla, Managing Director for Motores, Inc was extremely worried about what was happening to his company "I really need to decide what I'm going to do in the coming hours, or else it's going to be a disaster " These were his thoughts as he reviewed the situation that had just developed with his company

The Enterprise

In 1978, Eugenio Perla and Pedro Benavides established an automobile repair shop In 1979 two new partners, Carlos Ramirez and Joaquin Brenes, joined the business According to Eugenio, "Things were going so well that we had no time to worry about the details of legally formalizing the relationship between the partners "

On January 23, 1981, Eugenio Perla died while being operated for a heart condition His only son, Carlos, had to leave his own farm and retail store to "take over the old man's activities " But he was not convinced that this had been a wise move

At the beginning things were going very well Carlos, as the majority shareholder, took over the helm of the company and discharged his duties very competently

Shareholders

The principal shareholders were the Perla family, Pedro Benavides, Carlos Ramirez, Joaquin Brenes and Jacinto Baca The Perla family held 42% of the shares, Pedro Benavides 18%, Carlos Ramirez 16%, Joaquin Brenes 14% and Mr Baca 10%

For Carlos Perla's wife, Meme, the repair shop represented "a strange business I would prefer if we continue with our farm and retail shop I know these businesses better, and I can go there to see what is going on I don't feel that I can just drop by the automobile repair shop "

Mr Benavides owned a store specializing in automobile spare parts His store was located

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* This case was written by Leonel Rodriguez for the Central American Management Institute (INCAE) It has been translated into English and edited by Dr Tessie San Martin for the Price Waterhouse International Privatization Group The case is meant to be used as material for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation Although the case was based on an actual company, important facts including the company s name have been changed December 1993

close to Motores, Inc He noted, "I cannot ask for a better relation than this one I think that for me, being part owner of an automobile repair shop is a very smart move "

Carlos Ramirez owned a store that carried many of the same products sold in Mr Perla's own retail shop The store was also located in the same commercial center where Perla's shop was located He noted, "Retail trade tends to fluctuate, but the car repair business is a solid one After all, cars will always need to get repaired "

For Mr Brenes, the only benefit he could see to having a share of the business was in the discounts he obtained "If it were not for the fact that I get a very good price on car repairs, I would have tried to get out of this business a long time ago "

Jacinto Baca had no idea of why he was still a shareholder The car repair business had nothing to do with his own philosophical and literary interests He noted that "as far as I am concerned, Perla has my full confidence I have no idea of what he does, but he has my full support "

<u>The Situation</u>

It was the morning of September 1985, and the auditors contracted by Carlos Perla had just departed They had left behind a report that indicated quite clearly that the company was on the brink of bankruptcy

Perla quickly convened a meeting of the shareholders at Mr Brenes' house Mr Benavides arrived visibly irritated Mr Brenes could tell by the tone in his voice that Benavides had just been involved in a very heated discussion

Mr Ramirez arrived behind Benavides He noted to his fellow shareholders in the room that it was time to formalize things "I do not know if it is worth legalizing our contractual relationship in these circumstances, but it's obvious to me that something needs to be done "

The meeting would begin shortly Carlos Perla wondered "What had happened? If the business always operated profitably, why do we find ourselves in this situation? What should be my next moves?"

Swarzedzkie Fabryki Mebli S A [1]

Restructuring & Corporate Governance (Case A)

On November 12, 1991, Mr Grzedorz Medza was preparing for a Supervisory Board meeting for Swarzedzkie Fabryki Mebli (SFM), a leading Polish furniture manufacturer privatized in June of that year SFM's privatization had been considered very successful Not only had the company's existing shares been sold, SFM raised an additional PZL 25 billion of equity capital through the issue of new shares Yet the company's performance had not shown improvement and it remained dangerously close to bankruptcy

Mr Medza represented the Polish investment group, NARTA Although NARTA was the second largest shareholder in the company with 9 5 percent of the outstanding shares, it controlled only two of the nine seats on the Supervisory Board Medza's challenge was to evaluate and promote proposals for restructuring SFM, and to determine how to advance his goals from the position of a minority shareholder on the company's Supervisory Board Mr Medza began to review the facts

The Polish economy

Since January 1, 1990, the Polish economy had undergone radical change in the effort to establish a market-based economy The government's "big bang" reforms linked price liberalization, stabilization and privatization techniques in an ambitious, economic reform program Among other steps advocated by then-Finance Minister Lescek Balcerowicz, the government abolished price controls, sharply devalued the zloty, and imposed high taxes against excessive wage increases In addition, the government cut consumer, enterprise and energy subsidies that had accounted for over 30 percent of the state budget

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[1] This case was written by Sandy Chen of CORUM Business Services and Tessie San Martin and Charles A Webster of J E Austin Associates Inc for the Price Waterhouse International Privatization Group as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation The case also drew on important materials completed by Maria Kozloski and Itzhak Goldberg

Initially, the shock treatment achieved significant results Poland's fiscal deficit was eliminated in the first four months of 1990, inflation was cut from over 50% per month to roughly 5%, and the trade balance swung to a US $ 2 2 billion surplus by the end of the year In addition, shortages of goods had been all but eliminated

But the economic and social costs of the reform program had been substantial Unable to access free credit and government subsidies, plants had cut back production Gross domestic product had fallen 12% in 1990, while industrial output had declined 27% Unemployment had risen from virtually zero in 1989 to 1 1 million by December 1990, representing 6 1% of the labor force, while average real income had fallen by 30% By the end of 1990, the Polish government had accumulated over US $ 40 billion in external debt In early 1991, Poland's economy remained mired in recession

European Furniture Industry

In the 1980s, the European furniture industry was composed primarily of small and medium-sized companies For technical and market-related reasons, a high degree of specialization was required in furniture production In 1990, there were approximately 65,000 medium-sized furniture companies that employed, on average, between 50 and 300 workers These companies produced a diverse array of furniture products from materials including wood, steel, aluminum, plastic and composite materials

The furniture industry as a whole was extremely susceptible to short-term cyclical fluctuations in demand After very modest growth in the early 1980s, the furniture industry recorded a growth rate of 7 percent in 1989 Boosted by higher productivity and growing consumer demand for "systems furniture," ergonomic design and improved working conditions, the office furniture segment had been particularly dynamic in recent years This segment grew by 16 percent in 1989, and by over 10 percent in 1990 Growth in the rest of the industry was expected to be moderate

The most significant change in recent years had been the growth of international competition Based on the expansion of large retail networks, international furniture companies like IKEA and MFI had adopted mass-market strategies designed to maximize sales and drive down production costs These companies succeeded by selling furniture designed and produced either by in-house staff or by the lowest cost, outside specialists Large contract networks with outside furniture specialists enabled the companies to maximize flexibility in response to consumer demand, and minimize costs Products were then sold through wide retailing networks

In European markets, financial strength had emerged as another factor of competitive success Mass-production of furniture items required high start-up and operating capital costs In addition, retailers found that their ability to provide client financing had a significant impact on sales Eighty percent of furniture was sold to private dwellings The remaining 20% was sold to bulk purchasers with a stronger bargaining position

Swarzedzkie Fabryki Mebli, S A

Swarzedzkie Fabryki Mebli was one of Poland's leading producers of high-quality furniture Established in 1952, SFM manufactured more than 300 types of medium- to high-quality furniture The company's product line ranged from inexpensive, ready-to-assemble furniture parts and mattresses, to higher-quality solid wood furniture and upholstered sofas Its products were made from pine and oak veneer, and covered or laminated chipboard, as well as from solid wood With SFM's eight plants in the Swarzedz region of Poland, the company was a fully-integrated furniture manufacturer

SFM was considered a large company by international standards In 1991 the enterprise employed 3,262 workers and operated 8 plants within 100 kilometers of Swarzedz, near Poznan in western Poland The company's size and reputation had helped it not only acquire a well-known brand name domestically, but also secure export experience Approximately 80% of SFM's production was exported to Western countries, predominantly Sweden and Germany

Management and Personnel

Mr Andrzej Pawlak had held the post of managing director of SFM since 1976 Pawlak managed the enterprise with an assertive, hierarchical style of management, and involved himself in almost all decisions, and delegated little authority The managing director had recently claimed to "know every employee in this company personally " Although SFM's individual plant managers were technically competent, all eight plants were centrally managed from headquarters Plant managers did not have the responsibility to operate their individual plants profitably Exhibit 1 shows SFM's organizational chart in mid-1991

Of SFM's 3,262 employees, 65% were production workers The production workers were organized into small workshops, where traditional carpentry skills were used to produce furniture Wages were relatively low - approximately 10% of those in Germany - and represented less than 20% of net sales The productivity of direct labor was similar to Yugoslavian standards, but significantly lower than German levels Labor turnover, however, was high Skilled workers often

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left SFM for the higher wages offered by small workshops in the area These small workshops had greater flexibility in granting wage increases At SFM, wages were based on seniority

There were two labor unions at SFM, with a total of 1,682 members who were active in three of the eight plants Although management-union relations were considered cordial, it had taken two months for SFM management to convince its Workers' Council to agree to privatization The Worker's Council had expressed concern about greater unemployment due to privatization, but had also requested higher wages

Production and Operations

The centuries-old tradition of cabinet making in Poznan was reflected in SFM's operating practices At each plant, raw timber was dried, cured and stored, and then pieces were cut and veneers were spliced Finally, furniture was assembled and laminated, mainly using old production equipment and traditional carpentry methods Product quality at all plants was high compared to Western standards, but this often required an additional stage of manual refinishing

Many of SFM's plants produced different products SFM's main plant (Plant No 1) was located in Swarzedz next to headquarters It produced upholstered furniture, ready-to-assemble wall units and case goods The most modern facility was Plant No 5, located in Mosina It produced mainly low-priced, ready-to-assemble furniture Exhibit 2 provides a brief description of SFM's eight plants

One portion of the Mosina plant had begun production in May, 1989, on new machinery provided through a leasing agreement with IKEA, a Swedish furniture distributor with worldwide retail outlets IKEA received approximately 70% of Mosina's total production of ready-to-assemble wall units and upholstered furniture The leasing agreement gave IKEA the right of first refusal on all output Currently, only half of the plant space at Mosina was being used Mosina's fixed costs were high, due mainly to large lease payments on the new production equipment In addition, the costs for the raw materials specified for IKEA products had increased significantly

Because the SFM/IKEA leasing agreement had both guaranteed price discounts for IKEA and set a limit on annual price increases, rising costs of production inputs during 1990 had led to substantial losses on several furniture items The high fixed costs at Mosina had resulted in heavy losses at the plant In 1991, IKEA had agreed to price increases after SFM had threatened to halt production, but it was not expected that higher prices could be renegotiated in the near future In the meantime, Mosina continued to lose money

Marketing and Exports

Located in SFM's Trade Division, the company's sales department matched customer orders with product inventories and coordinated shipping Recently, the sales department had begun to work with the production department to make decisions regarding product design and product mix, but these activities were still very limited There were no market research activities to identify customer preferences in products or design

SFM exported approximately 80% of its production Roughly one-third of the company's exports went to IKEA The remainder of SFM's exports were to Germany German clients purchased higher quality products, including solid wood wall units, tables, chairs and bedroom sets German customers considered SFM to be a producer of dependable, traditional, mid-range furniture The profit margins on these products were considerably higher than for IKEA products SFM had plans to develop export markets for these products in France, Great Britain and Japan

Ninety-eight percent of SFM's exports were handled by PAGED, a Polish foreign trade organization responsible for paper, pulp and other wood processing industries Although PAGED had assisted in the development of SFM's export market, it served the entire Polish furniture industry In foreign markets, SFM lacked both strong brand name recognition and a strong presence in a specific market niche SFM paid approximately PZL 12 billion in annual commissions to PAGED According to an analysis by the International Finance Corporation "for these commissions, a Western company would typically expect a considerably greater level of service than is being provided to SFM "

SFM also relied on MARKA, a German trading partner of PAGED, to provide information on foreign export markets According to MARKA, however, consumers were moving away from the heavy, substantial oak furniture that was a specialty of SFM Consumers preferred lighter, more modern veneer and plastic laminate designs SFM could produce these newer, lighter furniture styles, though mainly at the Mosina plant

Domestic Sales

Twenty percent of SFM's production was sold in the domestic market Until recently, SFM had placed little emphasis on the domestic sales SFM only had an 8% share of the domestic furniture market Products were manufactured mainly for export, with excess items or lower quality products allocated to domestic customers Other domestic competitors could match SFM's product quality Moreover, competitors tended to specialize in narrow product segments, in contrast to SFM's broad range of products

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Demand for SFM furniture in Poland appeared to be much greater than the supply of SFM products available in the market In addition, new market segments such as office furniture had emerged and were growing rapidly In response to this, SFM had opened a retail store in Poznan in December, 1990, and had plans to open a second one in Swarzedz SFM expected to face stiffer domestic competition from several joint ventures (including IKEA-Poland in retail stores) and several thousand small private workshops

Financial Performance

Until recently, SFM had performed strongly Between 1986 and 1989, SFM's net income had risen from 5% of sales in 1986 to more than 50% of sales in 1989 These increases had been due largely to SFM's focus on exports, and to the company's relatively low domestic labor and materials costs Profits for 1989 had been especially inflated due to exchange rate gains, interest income and subsidies received in sales to the Soviet Union Although SFM recorded solid earnings for the first nine months of 1990, earnings fell sharply in the third quarter, and the company suffered a net loss for the year Exhibit 3 provides SFM's income statements and balance sheets for 1987-1991

A key problem was that the profitability of SFM's products varied widely, both in export markets and domestic sales Exhibit 4 shows that contribution margins for products (sales prices less total direct costs) ranged from approximately -40% to +60%[2] A cost-based formula was seldom used in calculating selling prices Instead, selling prices depended on client negotiating skills, SFM's existing price level with the client, and foreign market requirements In general, SFM achieved higher margins on domestic sales because of its strong brand name and because profits on foreign sales had been depressed due to appreciation in the real exchange rate[3] Exhibits 5 and 6 show sales, profit and productivity figures by plant for SFM

In order to maintain adequate working capital during this period of financial crisis, SFM had turned to short-term bank debt, paying a 56% interest rate or more In 1990, Bank Gdanski

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[2]/ A contribution margin relates the revenue per unit of product sold with the direct variable cost of producing the product Only the expenses that are directly attributable to the production of the unit of product (and that would not exist if the unit had not been produced) go into this calculation In the short run as long as revenue exceeds direct variable costs the sales will contribute (hence the name contribution margin) to the recovery of fixed costs

[3]/ Due primarily to the IKEA contract, SFM s export revenues had remained virtually constant while production and working capital costs had risen as a result of domestic inflation This was because the SFM s contract with IKEA was agreed on the basis of prices that were fixed in foreign currency and the Polish government did not devalue the zloty quickly enough to keep pace with surging inflation

increased lending to SFM tenfold, and SFM's monthly interest payments rose to PZL 2 5 billion monthly, or 10% of net sales Instead of using cash to pay for operations, SFM was forced to divert much of it to paying off its heavy debt burden This led to further debt increases to pay for operations, and even higher interest payments

An additional financial drain was a salary increase SFM granted its employees in November, 1990 This increase substantially exceeded the maximum allowed by the government, and as a result the company incurred an excess wages tax of more than PZL 5 billion in both November and December As of May 1, 1991, SFM owed approximately PZL 40 billion to Bank Gdanski, PZL 20 billion to the Ministry of Finance (primarily due to the excess wages tax), and PZL 6 billion each to PAGED and Jacobson, PAGED's German partner

Privatizing SFM

Because of SFM's falling profitability and high indebtedness, the decision to privatize the enterprise was controversial There had been significant pressure within the government to privatize SFM Because the enterprise was well-known as a producer of dependable, high-quality furniture, key government officials regarded SFM as an attractive candidate for raising the public's involvement in Poland's slowly-moving privatization program

But the government's lead advisor on SFM, the International Finance Corporation (IFC), thought that without government intervention to support SFM, the enterprise would soon be bankrupt The IFC completed a report that stated "SFM could not be sold to the public and probably was not a viable going concern unless both a financial and an operational restructuring were undertaken " Temporary measures such as another devaluation of the zloty, the report continued, would improve SFM's performance in the short run, but only a concerted effort to improve long-term operating efficiency and profitability would save the company Above all, the IFC concluded, resolving the debt issue was crucial to a successful privatization

On the basis of this report, the IFC coordinated a long series of negotiations between SFM and the Polish government with the goal of forgiving completely both SFM's long-term and short-term debt Though this unprecedented move was initially opposed, the Polish Ministry of Finance finally agreed to assume all of the company's debt obligations with the condition that an initial public offering of SFM shares would be conducted, and the proceeds from the offering would first be used to repay the government

SFM was privatized on June 25, 1991 through an initial public offering The privatization was considered very successful The sale of shares went swiftly and smoothly In addition, the portion of SFM shares reserved for small investors (36 percent) sold out on the first day of the two-week offer period Shares earmarked for large investors (40 percent) were oversubscribed by 12 percent Foreign investors took a 24 percent stake in SFM [4]

The public offering was the first to combine a primary capital increase of 500,000 shares with a sale of the government's 1 4 million shares The sale of these shares raised PZL 25 billion of new equity capital Thus the rapid sellout of shares not only improved the image of Polish public offerings, but also generated fresh funds After the privatization, the IFC expected that SFM would have enough time and money to implement a more thorough restructuring plan

The Post-Privatization Situation

Background

SFM's privatization resulted in important changes in its structure of ownership and management When SFM was formed into a joint-stock company on October 30, 1990, the Act of Transformation and Company Statutes required the company to create three new governing bodies to oversee its operations These were 1) a general assembly of shareholders, or the owners of the company, 2) a nine-member supervisory board responsible for representing the owners' interests and supervising management, and 3) a three-person management board responsible for day-to-day management of the company

SFM's initial supervisory board governed the company from October 30, 1990 until the company's privatization on June 25, 1991 Of the nine members of the initial supervisory council, six were appointed by the Polish Ministry of Privatization, and three were elected by employees Members of the board were given one-year terms The supervisory board then appointed members of the management board to serve two-year terms Exhibit 7 provides background information on individuals elected or appointed to management positions after SFM became a joint-stock company

New Shareholders

SFM's privatization created a new group of owners The WISLA Insurance and

4/ The Polish government earmarked tranches for small and large shareholders in order to avoid a widely dispersed shareholder profile (a major drawback of public offerings in post-communist economies)

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Reinsurance Company, Ltd a large state-owned Company, held the largest bloc of shares in the privatized company -- 345,000 shares or 13 8% of the equity MARKA Westphalen GmbH was the second largest owner with 129,000 shares and 5 2% Two Canadian Funds each held over 3% as did Bank Handlowy NARTA, a domestic investor group, quickly purchased 9 5% of the shares of SFM stock, making it the second largest shareholder in the company Exhibit 8 lists SFM's principal new shareholders

After privatization, the new shareholders replaced the members of the supervisory board The initial supervisory board (that had been appointed by the Polish Ministry of Ownership Changes after SFM was transformed into a joint-stock company) was not effective in making tough restructuring decisions The chairman, Waldemar Frackowiak, had appeared on paper to be particularly well-suited for the task at hand In practice, however, he proved largely ineffective Difficult decisions about reconfiguring the plants, laying off redundant workers and other painful restructuring actions were not taken

SFM's new, post-privatization supervisory board was dominated by members representing NARTA, Medza's investors' group In spite of its minority "two seat holding," NARTA had a vested interest in making changes to improve operating performance Moreover, its activism on SFM's supervisory board had increased its influence over the company's management significantly

Financial Performance

SFM's financial performance had not improved significantly since its privatization at the end of June 1991 Accounts payable continued to increase faster than accounts receivable, and short-term debts began to rise again In fact, the difference between accounts payable and accounts receivable in the month of June alone exceeded the 25 5 billion zloty cash infusion from the public offering There was a net positive balance of accounts receivable versus accounts payable in July, but the steadily increasing pattern of negative payables balances resumed in August Exhibit 9 shows monthly income statements for 1991

From the perspective of accounting earnings, the situation was no better There was a positive net profit only in a few months during 1991 SFM's share price had slipped even lower through September Although SFM's share price rose slightly in October, 1991, it remained well below the company's initial offering price in June

Key factors in this declining performance were product pricing, product mix, and labor policies After the initial public offering, SFM had asked the IFC to conduct a more detailed analysis of the management information systems in SFM with the goal of improving the

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productivity and competitiveness of the firm The IFC focused on determining whether specific product lines produced more cash than they consumed (contribution margins) They discovered negative or close to zero margins in many export product lines, and some negative margins in domestic sales Average contribution margins on the total range of products were too low to cover the average fixed costs, particularly labor costs

A second factor was labor policies In general, SFM's labor force was excessive except for when the company was operating at full capacity Though the firm was not at anything near full capacity, all workers received their full salaries In July, 1991, wages had been increased again by 30 percent because, according to Mr Pawlak, "they deserved it " Pawlak indicated that he had no choice but to grant workers a wage increase because if he had not done so, some workers would have quit and moved to smaller competitors Workers were kept on the payroll even when their functions were discontinued When the decision was made to discontinue production of mattresses for IKEA, for example, the women who sewed mattress covers by hand suddenly had no work to do But they were kept on the payroll and were kept busy

Pawlak's opposition to wage restraint and layoffs was widely shared among the members of the initial supervisory board and the management board Though more determined to improve SFM's performance, the new supervisory board also seemed reluctant to cut workers

The Board Meeting

Looking over SFM's record in early November, 1991, Medza could see that the company's need for deep operational and organizational restructuring had not diminished Although SFM's debt had been eliminated just before privatization by the State Treasury, Medza remained deeply concerned about SFM's ongoing performance With all these issues to consider, Medza had to prepare himself for the upcoming meeting of SFM's supervisory board on November 15 Clearly, SFM was in very bad shape, and unless the company underwent serious restructuring, it might not survive SFM creditors, including the banks holding the bulk of SFM's increasing short-term debt, were growing visibly nervous with the company's persisting cash flow problems A key aspect of this meeting would be an evaluation of management's plan for addressing this persisting cash flow crunch

With only three days before the meeting, Medza had to determine which issues were of highest priority for NARTA, and what actions he would recommend the supervisory board to undertake

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[redacted]

- GENERAL MANAGER Andrzej Pawlak
  - Production Wojciech Gieburowski
    - Chief of Production
    - Manufacturing
    - Construction
    - Exports
    - Materials utilization
    - Technology
  - Development Janusz Sliwocki
    - Programming
    - Energy
    - Investment
    - Mechanical
    - Safety
    - Imports
  - Economics Ryszard Karolczak
    - Pricing
    - Cost estimates
    - Employment & Salaries
    - Personnel & training
    - Social activities
  - Trade Ryszard Gawroniak
    - Supplies
    - Domestic sales
    - Administrative
    - Transport
    - Stock management
    - Stock control
  - Accounting Waclaw Krzyska
    - General accounting
    - Materials book keeping
    - Cost accounting
    - Finance
  - Design
  - Quality control
  - Data processing
  - Legal
  - Newsletter
  - Civil Defense

Exhıbıt 2 Swarz_dzkıe Fabrykı Meblı

Plant Products	Sales Employees Productıon space Storage space	IFC comments
Plant # 1 Swarz_dz (maın) Upholstered furnıture Maın veneer preparatıon	112 8 bıl PZL (12 mıl USD) 801 employees 13 680 m2 10 900 m2	Thıs plant ıs consıdered the maın plant located near company headquarters Furnıture produced ıs trendy and on the cheaper sıde Part of the productıon program ıs not approprıate for the factory s partıcular productıon system Productıon facılıtıes are cramped and narrow warehouses are far away the machınery used ıs maınly old the flow of productıon ıs ınefficıent and the workıng methods are labor ıntensıve
Plant # 2 Swarz_dz Chaırs Corner benches	25 5 bıl PZL (2 7 mıl USD) 284 employees 5362 m2 1215 m2	Thıs plant also located ın Swarz_d_ ıs housed ın cramped old buıldıngs A relatıvely new bıg buıldıng has not yet been utılızed The wood cuttıng sectıon ıs antıquated the wood kıln dryers are obsolete The productıon flow ıs wıdely ınefficıent
Plant # 3 Kostrzy_ Dınıng Tables Casual Tables	23 9 bıl PZL (2 5 mln USD) 137 employees 4720 m2 2700 m2	The plant about 12km east of Swarz_d_ consısts of a number of separated narrow buıldıngs and spaces wıthın those buıldıngs The machınery sectıon ıs cramped Assembly lınes have been ınstalled but were not desıgned for efficıent operatıon
Plant # 4 Pozna_ Oak export furnıture Wall unıts Credenzas TV cabınets	42 2 bıl PZL (4 5 mln USD) 209 employees 7470 m2 4940 m2	Thıs factory ıs located north of Pozna_ about 15km from headquarters It ıs housed ın a bıg buıldıng whıch ıs subdıvıded ınto small unıts makıng productıon flow ımpossıble to organıze ın an efficıent manner Productıon consısts of a combınatıon of hıgh qualıty oak furnıture and low qualıty furnıture
Plant # 5 Mosına (New Factory) IKEA case furnıture IKEA beds and mattresses (Old factory) Domestıc beds Domestıc mattresses Oak wood preparatıon Tables School furnıture	104 1 bıl PZL (11 1 mln USD) 887 employees 24830 m2 10190 m2	Thıs factory ıs located 30 km from headquarters and contaıns two maın sectıons The old factory whıch produces school furnıture bed frames and tables Productıon ıs hındered by cramped spacıng wıthın narrows buıldıngs Most machınery ıs old the kıln dryers the dryıng method and the productıon method are outdated Solıd wood transport and storage are very labor ıntensıve The new factory was buılt on wıde open land under an IKEA leasıng agreement and contaıns all new machınery Space ıs only half used lacquerıng ıs a bottleneck and the panel cuttıng sectıon ıs underutılızed Part of the new ınstallatıon ıs a coal and wood waste fıred heat energy plant whıch appears far too bıg for the factory The excess boıler capacıty ıs planned to be used to supply heat to the town of Mosına
Plant # 6 Ko_cıan Credenzas Vıtrınas Cupboards Cabınets wıth panel and glass door	43 8 bıl PZL (4 7 mln USD) 232 employees 3280 m2 2595 m2	Thıs factory located 60km from headquarters ıs subdıvıded ınto narrow spaces Productıon lınes are cramped and do not follow a logıcal productıon sequence Varıety of productıon ıs too dıversıfıed
Plant # 7 Rawıcz ı Bojanowo Cupboards Credenzas Corner benches Tables	25 5 bıl PZL (2 7 mıl USD) 200 employees 4686 m2 3280 m2	These two factorıes lıe aproxımately 100km from headquarters Rawıcz produces a varıety of furnıture ın spread out and narrow buıldıngs makıng a logıcal and efficıent productıon flow dıfficult to set up Bojanowo produces only upholstered furnıture
Plant # 8 Gosty_ Wall unıts Credenzas Tables Junıor desks Bedframes Nıght tables	28 9 bıl PZL (3 1 mıl USD) 218 employees 2915 m2 955 m2	The factory ıs about 70km south of Pozna_ and consısts of a former multı story graın mıll The facılıtıes are not suıted for furnıture productıon due to the need for vertıcal transport and the narrow but spread out condıtıons
Source IFC		

ːhibit 3 A SFM Income Statements 1987 1991

come Statements 1987 1991					
ır the year ending December 31 (mıllıon ZLP)	**1987**	**1988**	**1989**	**1990***	**1991***
venues	8 281	13 637	41 449	461 725	456 582
ɔst of goods sold	7 218	11 566	30 158	329 358	329 300
ɔirect materıals	4 130	6 388	15 876		
ɔirect labor	1 706	2 555	10 972		
ɔirect depreciation	107	195	307		
ɔther expenses	1 275	2 428	3 003		
oss Profit	1 063	2 071	11 291	132 367	127 282
ales and distribution expenses				13 730	12 894
dministrative expenses				68 617	138 107
ther operating income	769	316	10 534	19 168	1 025
erating Income (Loss)	1 832	2 387	21 825	69 188	22 694
iterest receivable				2 232	2 033
terest payable				52 132	39 181
ɔfit (Loss) on Ordinary Activities before tax	1 832	2 387	21 825	19 288	59 842
ax	927	1 483	4 954	12 757	1 704
ɔfit (Loss) after Tax	905	904	16 871	6 531	61 546
xtraordinary items	33	539	4 538	0	31 848
t Profit (Loss)	938	1 443	21 409	6 531	29 698

ote to Income Statements 1990 and 1991 Income Statements reflect changes in accounting procedures auditors ɟ economic conditions 1990 results are for the 10 months 1/1/90 - 31/10/90 1990 figures have been adjusted for ɔerinflation so figures are in 31/12/91 zloty 1991 results are for the 14 months 1/11/90 31/12/91 xhibit 3B SFM Balance Sheets 1987 - 1991

alance sheets 1987 - 1991

, of December 31 (in million PZL)	1987	1988	1989	1990**	1991**
SSETS					
urrent Assets					
;ash	88	185	4 037	10,282	8,072
\ccounts receivable	657	1 466	8 244	51,749	38,243
)ther receivables	232	163	921	406	196
nventories	2 331	3,116	18,213	104 096	65 972
ıtal Current Assets	3 308	4 930	31 415	166 533	112 493
ɜt Fixed Assets					
3uildings/Tangible assets	1 185	2 512	6 182	273 995	275 052
'lant and equipment	926	1 388	5 091		
onstruction in progress	1 188	3 651	3,131		
ntangible assets	63	320	996		
ong-term investments	1	13	150	155	105
tal Fixed Assets	3 363	7 884	15 550	274 150	275 157
)TAL ASSETS	6 671	12 814	46,965	440 683	387 650
\BILITIES AND SHAREHOLDERS EQUITY					
ırrent Liabilities					
ıccounts payable	668	1 704	6 459	40 393	79 241
)ther payables	357	921	5 777		
›hort-term credits	945	1 365	7 554	122 291	37 639
ıtal Current Liabilities	1 970	3 990	19,790	162 684	116 880
›ng-term Liabilities					
ong-term loans	1,077	2 395	364	0	6 480
tal Liabilities	3 047	6,385	20 154	162 684	123 360
ıareholders Equity					
'aid in capital	963	1 941	1 941	50,000	62 500
etained earnings	2 661	4 488	24 870	227 999	201 790
tal Shareholders Equity	3 624	6 429	26 811	277 999	264 290
)TAL LIABILITIES AND EQUITY	6 671	12 814	46 965	440 683	387 650

Note to Balance Sheets 1990 and 1991 Balance Sheets reflect changes in accounting procedures auditors and onomic conditions The buildings line item changes to show net tangible assets in 1990 and 1991 1990 figures ve been adjusted for hyperinflation so 1990 figures are intended to be comparable to 1991 figures

Exhibit 4 Contribution Margins of Selected Products

Product	Sales Price	Labor Cost	Material Costs	Selling Costs	Total Direct Cost	Contribution Margin
Export Items						
Matress Sultan 120	441	43	544	44	631	-43%
Sofa Kunglav 2-seater	1053	154	831	104	1089	-3%
Wall Unit "Kavalier 80HGD'	268	24	170	27	221	18%
Table 3345	1779	231	637	183	1051	41%
Glass Door Cabinet 747/2	4682	613	1315	487	2415	48%
Chair 790	583	65	161	61	287	51%
Wall Unit 'Munster 3 0	10336	1201	2370	1075	4646	55%
Chair "Magda 6181"	656	75	149	55	279	57%
EXPORT VS DOMESTIC						
Armchair (export)	714	106	284	74	464	35%
Armchair (domestic)	950	106	284	12	402	58%
TV Cabinet Albatros' (export)	468	76	230	49	355	24%
TV Cabinet 'Albatros (domestic)	900	76	230	12	318	65%
Table 2213 (export)	1148	179	384	119	682	41%
Table 2213 (domestic)	1500	179	384	20	583	61%

Exhibit 5 SFM Sales and Profit by Plant (based on September 1990 prices)

Plant	Export (% of sales)	Domestic (% od sales)	% Total Sales	Cost as % of Plant Sales			Gross Margin
	% of plant's total sales			Materials	Labor	Depreciation/ Equip Lease	(% sales)
1 Swarzedz	60 5	39 5	18 8	53 5	7 6	16 9	22 2
2 Swarzedz	96	1 6	7 5	28 6	15 3	29	27 1
3 Kostrzyn	96 8	3 2	7	35 6	16 7	18 4	29 3
4 Poznan	79 4	20 6	11 4	29 4	13 6	15 7	41 4
5 Mosina	87 2	12 8	28 6	84 1	7 3	40 9	-32 3
6 Koscian	90 5	9 5	12 7	29	16 7	15 1	39 2
7 Rawicz	91 3	8 7	6 8	52 2	15 3	21 6	10 6
8 Gostyn	80 6	19 4	7 3	42 9	18 7	19 4	19
TOTAL	82 8	17 2	100	52 7	11 4	24 1	11 9

Exhibit 6 Productivity by Plant

	Direct Labor	Factory Space (sq m)	Revenues (in mln USD)	Space (sq m per person)	Revenues (in USD/person)	Revenues (in USD/sq m)
1 Swarzedz	566	24,580	12 0	63	21,200	488
2 Swarzedz	188	6,577	2 7	42	14,360	411
3 Kostrzyn	95	7,420	2 5	82	26,320	337
4 Poznan	144	12,410	4 5	86	31,250	363
5 Mosina	619	35,020	11 1	84	17,930	317
6 Koscian	179	58,754	4 7	42	26,260	800
7 Rawicz	126	7,966	2 7	62	21,430	339
8 Gostyn	158	3,910	3 1	36	19,620	793
TOTAL	2,075	103,758	43 3	59	20,870	417
International	Yugoslavia			65 - 80	23,000	450
Comparisons	Germany			70 - 85	130,000	1,400

Exhibit 7

Swarz_dzkie Fabryki Mebli Board Members, June 1991

Supervisory Board

Waldemar Frackowiak - Chairman of the Supervisory Council, appointed by the Polish Ministry of Ownership Changes PhD Economics senior lecturer at Pozna_ Economic Academy Specialist in the developmental strategy of enterprises and has attended course on organization and development strategies of companies in the US He is a consultant with the Polish consulting firm Petex in Pozna_ Age 41

Bogdan Karasinski - MSc Economics manager of Pozna_ branch office of the Bank Gda_ski He has been employed in banking since 1947 and has served as branch office manager since 1945 He is a specialist in enterprise financing and organization Age 68

Hieronim Pastaremczak - Supervisory Council director appointed by the Polish Ministry of Ownership Changes PhD Economics manager of Petex in Pozna_ For seven years he was the general manager of ZETO Pozna_ a state-owned electronic data processing firm He is a specialist in enterprise economics and organizational structure as well as financial and economic analysis Age 64

Andrzej Pradzynski - Supervisory Council director appointed by the Polish Ministry of Ownership Changes MSc Engineering specialty in construction He is a co-worker of the joint venture company Protim Age 53

Dorota Szewczak - Supervisory Council director appointed by the Polish Ministry of Ownership Changes MSc Economics manager of Poznan office of the Treasury since 1969 employed in the Ministry of the Treasury since 1949 She is a certified public accountant consultant to the Association of Accountants and a member of committee examining candidates for certification in accountancy She is the author of several articles about financial and tax policies Age 60

Grzegorz Medza - Supervisory Board director PhD Economics from Warsaw University He was a program manager in the Polish Department of Large Enterprise Privatization in charge of the privatization of SFM Age 29

Marek Hoppe - Supervisory Council director elected by SFM employees MSc Engineering specialty in timber technology Employed in Plant No 1 (Swarz_dz) since 1978 first as a foreman then promoted to production department manager Since 1984 he has the manager of Plant No 1 Age 38

Barbara Kubzdyl - Supervisory Council director Employed by SFM since 1973 originally as a cashier She later transferred as a clerk to the financial department

W_odzimierz Tylmann - Supervisory Council director elected by SFM employees Employed by SFM since 1977 in Plant No 2 (Swarz_dz) as a machine setter and calibrator Age 53

Management Board

Andrzej Pawlak - President of the Management Board PhD Engineering specialist in timber technology He started working for SFM in 1960 first as the chief engineer and since 1976 as the general manager of SFM Age 59

Ryszard Karolczak - Management Board Director PhD Economics He has worked at SFM since 1963 He was senior economist in the Economics Department then a manager of the Organizational Planning and Analysis Department and since 1988 has been a Deputy Manager of SFM He is also a Chairman of the Poznan office of the Polish Economic Society and an advisor to the consulting firm Petex Age 53

Janusz Sliwocki Management Board Director MSc Engineering specialty in timber technology He has worked for SFM in the Technology Department Then as a plant manager of Plants No 1 and No 5 then as General Maintenance manager and since 1967 the first deputy production manager Age 46 ıibıt 8 Major Shareholders - June 1991

ıreholder Group	Shares Held	Percentage
ge Investors	1,000 000	40%
all Investors	900,000	36%
ployees	400 000	16%
ısh Government (for claıms)	100,000	4%
rnatıonal Fınance Corporatıon (fee)	75,000	3%
ıncıal Instıtutıons	25 000	1%

ge Investors Group	Shares Held	Percentage of Total Shares
al Large Investors	**1,000,000**	**40%**
nestıc	**483,000**	**19 3%**
ISLA - Insurance and Reınsurance Co	345 000	13 8%
ınk Handlowo-Kredytowy ın Wroclaw	86 000	3 4%
'szard Krauze	22 000	0 9%
ırıan Lenczewskı	10 000	0 4%
ınk Morskı	10 000	0 4%
G S A	10 000	0 4%
eıgn	**517,000**	**20 7%**
ARKA Westphalen Gmbh	129 000	5 2%
ıst Europe Development Fund Ltd	125 000	0 5%
artmore Investments Ltd	106 000	4 2%
enesıs Emergıng Market Fund	77 000	3 1%
›ta Funds Ltd	33,000	1 3%
organ Grenfell Fund	25 000	1 0%
eenwood Nomınees, Ltd	22,000	0 9%

e Soon after SFM began tradıng ıts shares a group of small ınvestors NARTA quıckly purchased
% of the total shares, makıng ıt the second largest shareholder group after WISLA

Financial statements from end of (in millions zlp)	Dec 90	Jan 91	Feb	Mar	Ap	ay	Ju	Jul	Aug	Sep	Oct
WORKING CAPITAL DETAIL											
Current Assets	**101 850**	**119 401**	**113 876**	**106 904**	**112 160**	**138 440**	**124 546**	**120 768**	**125 760**	**120 951**	**112 606**
Inventories	75 299	84 422	84 471	83 552	90 656	85 888	79 050	81 931	82 406	74 750	74 629
Materials	60 480	49 646	45 909	45 992	42 391	39 297	38 193	34 962	33 163	30 986	26 950
Work in progress	14 130	14 210	14 283	14 213	14 305	14 374	13 996	14 082	14 213	14 728	14 781
Finished products	13 545	17 548	20 561	19 387	27 534	25 533	20 388	27 211	28 848	22 832	26 567
Goods	1 685	3 017	3 716	3 960	6 426	6 684	6 473	5 676	6 182	6 204	6 341
A/R	21 852	26 815	24 468	20 141	16 900	45 574	38 124	31 580	36 390	40 205	34 737
Cash	4 699	8 164	4 937	3 211	4 604	4 978	5 372	5 218	4 925	5 996	3 240
Marketable securities						2 000	2 000	2 039	2 039	0	0
Current Liabilities	**116 391**	**137 194**	**139 270**	**141 468**	**158 377**	**87 820**	**72 568**	**73 581**	**88 269**	**84 297**	89 491
Interest payments	4 753	4 877	3 419	2 009	1 938	1 861	1 874	1 722	5 594	4 603	3 514
Principal payments	59 000	66 000	62 641		59 800	19 659	20 235	18 906	21 070	21 495	15 218
Other current liabilities	52 638	66 317	73 210	78 979	96 636	66 300	50 459	52 953	61 605	58 199	70 759
Suppliers	22 806	22 287	25 004	25 970	39 664	41 884	28 276	28 954	32 699	33 399	47 141
Budget	14 388	23 527	22 239	23 923	31 618	3 259	2 705	2 576	2 639	3 581	4 691

NOTE Due to an accounting error proceeds from the initial sale of SFM stock were accounted as revenues in May 1991 This error was corrected in September 1991

PRICEWATERHOUSECOOPERS

Swarzedzkie Fabryki Mebli, S A

Restructuring and Corporate Governance Case (B) [1]

On November, 15, 1991, the Supervisory Board of Swarzedzkie Fabryki Mebli (SFM), a leading Polish furniture manufacturer that had been privatized in June, 1991, had just completed a heated meeting Although the company's privatization was considered a success, the company was on the verge of bankruptcy The Supervisory Board and Management Board of the company were at odds over several issues including the company's financial position and the need for restructuring Additionally, the boards had to prepare for the company's first General Meeting of Shareholders Both the Supervisory Board and SFM's management were concerned about this meeting

Facing diverse interests and concerns among SFM's new shareholders, company directors feared losing control of the discussion and indeed the company during this first meeting The current leadership felt that this situation might exacerbate decision-making difficulties at a time when the company could ill afford to be rudderless In an attempt to maintain control over both the agenda and the ensuing discussions, the Supervisory Board asked Mr Grzedorz Medza to head the team organizing the General Meeting

Mr Medza, a Supervisory Board member, represented SFM's second largest shareholder, NARTA A former program manager at the Polish Ministry of Privatization, Mr Medza had been responsible for preparing SFM for privatization since early 1990 In October of 1990, Medza had been one of six directors appointed to SFM's Supervisory Board by the Ministry of Privatization Medza was widely respected as one of the most knowledgeable members of the company's Supervisory Board Mr Medza and his team faced a daunting challenge devise a strategy to combat the company's financial crisis while addressing the various and often divergent needs of its shareholders

[1] This case was written by Tessie San Martin for the Price Waterhouse International Privatization Group as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation The case also drew on important materials completed by Maria Kozloski, Itzhak Goldberg and Charles A Webster Not for publication citation or use by any other means without the written consent of the Price Waterhouse International Privatization Group

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The Shareholders

Following the public sale of SFM shares, the company's ownership was dispersed among a number of institutional investors, individuals, employees and the Polish Government Among the largest investors were WISLA, a Polish insurance company, and NARTA, a Polish investment group These investors held 13 8 and 9 5 percent of SFM's shares, respectively Foreign investors including the International Finance Corporation, the foreign investment arm of the World Bank, held 24 percent of the outstanding shares Small investors including individuals amassed 36 percent of the shares while SFM employees and the Polish Government held 16 percent and 4 percent of the shares, respectively

Foreign Investors and the IFC

It was known widely among the shareholders that each group held strong opinions about the company's future and therefore each group wished to influence the agenda of the first General Meeting of Shareholders Among the most vocal of shareholders was the IFC With the backing of the other foreign investors, the IFC wished to introduce a sweeping plan to restructure the company In 1991, SFM, with IFC guidance, had hired Bruner Associates Inc , a German consulting firm with expertise in the furniture and wood products industry, to review the operational and organizational structure of SFM Bruner conducted a detailed survey of SFM's operations, and concluded that with sound restructuring, SFM's performance could be improved considerably In November, 1991, Bruner Associates presented its findings to SFM's Supervisory and Management Boards Highlights of Bruner's report included

1) Production Inefficiency

According to the Bruner report, almost all of SFM's plants suffered from inefficient production flows and cramped spacing, and relied on labor-intensive working methods Bruner recommended changes in the production flows and plant layouts in most of the SFM plants The consulting firm estimated that the resulting gains in plant efficiency would effectively increase plant capacities by 40% to 115%, depending on the plant

Bruner also estimated that on the basis of these changes it would be possible to increase production by 30% over the current level to meet future demand Adjustments were also suggested in the product mix to focus on these items with greatest profit margin The increased profit margins combined with the increased production volume was expected to result in roughly a 44% increase in revenues

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2) Decentralization and Incentives

Bruner also emphasized that the management structure of SFM was far more centralized than the company's competitors in Western Europe In addition, SFM was still much larger than an average German furniture manufacturer According to the Bruner report, this combination of large size and centralized management made it very difficult to be sensitive to market needs and to respond quickly to changes

In order to overcome these challenges, Bruner proposed that the company be divided into four profit centers The decision to create four profit centers was made on the basis of the type and quality of products from each plant, the type of machinery and equipment used in production, the complementarity of the raw materials and production processes used in each plant, and the customers served by each plant Exhibit 1 shows how the profit centers would be structured

Bruner argued that by creating profit centers, each group's financial performance could be measured, and incentives could be developed to encourage improvements The increased individual responsibility of each group for its decisions would be balanced by the increased freedom of decision-making in almost all areas The eight plants would be divided into four groups, each of these groups would operate mostly separately, and each would be managed more independently of the senior SFM management

Although most functions (including production, distribution, and supply) would be managed by each profit center, some functions would remain centralized for the near future These functions included marketing, finance, legal and some administrative departments Bruner argued, however, that the long-term goal should be to break up SFM into separate subsidiaries based on the profit centers

3) Managing Information

The third area Bruner examined was how SFM generated and organized information Currently, Bruner found, data from SFM's operations was not summarized and analyzed in a manner that would be useful for management purposes There was no shortage of data, the system developed when SFM was a state-owned enterprise still churned out vast amounts of figures, including large spreadsheets produced by an army of bookkeepers

But this data was mainly expenses and revenues as defined in a conventional accounting system It was impossible to divide costs in terms of fixed or variable, long-term or short-term, cash or accrual, and average or marginal Under the current system, it was also practically impossible to allocate costs to specific products, machines or plants The analysis of contribution margins by client, product or plant, for example, though spotlighted by the IFC in May, 1991, as a vital component of product mix planning, had not been implemented

4) Marketing and Sales

A final problem area that Bruner focussed on was SFM's failure to exploit both domestic and international market potential In Poland, Bruner found that SFM had a strong reputation as a producer of quality furniture, and that demand for SFM's products was strong enough to allow the company considerable sales expansion Very little had been done, however, to meet this demand

In export markets, Bruner also found that SFM was considered to be a producer of dependable -- though not always stylish -- mid-range furniture Changing consumer tastes were potentially a large threat to SFM's export sales Although the company had the capability to produce more modern furniture (especially in Plant 5 at Mosina), SFM had not taken action

To enhance SFM's focus on market development, Bruner recommended that the sales department be reorganized to form both a marketing and sales department This new department would not only coordinate order processing and shipping, but would also conduct market research, develop new product designs, and participate in product mix decisions These changes would also be supported by the development of a management information system that could track the financial and operational performance of SFM

Management Response

To Mr Pawlek and his management team, such a comprehensive restructuring plan seemed premature, especially since the company had been private for a mere six months In addition, many of the changes suggested by Bruner appeared to SFM's management to be expensive, time consuming and not worth the effort As a result, virtually no progress had been made on these items Although there was general agreement that products with negative contribution margins needed to be dropped, little concrete action had been taken to evaluate the margins or to change the product mix

WISLA and NARTA

Domestic investors WISLA and NARTA concurred with the IFC They too believed an

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aggressive restructuring plan such as Bruner presented was the only hope for overcoming the growing crisis in SFM In addition, these investors openly expressed their impatience with management's lack of interest and action Along with the IFC and other foreign investors, WISLA and NARTA controlled 43 percent of SFM's shares Together, this group of investors would mount a campaign to take control of SFM's Supervisory Board Moreover, they sought shareholder support for changes in the management board and in the management structure of the company, as well as significant reductions in employment

Individual Investors

This new group of shareholders were known to be interested particularly in a generous dividend policy SFM shares had sold very well among the general public because of expectations for a quick dividend payout But this expectation had to be balanced with the company's need for financial restructuring and capital investment

SFM Employees

Company employees, of course, were opposed to reductions in employment and wage restraints They also sought protection of traditional social benefits so far maintained by the company While many employees openly expressed their loyalty to Mr Pawlek, a growing number of workers grew skeptical of the current management's ability to guide the company under new and ever-changing market conditions To be sure, however, this group would fight for its interests as employees first and shareholders second

The Ministry of Privatization

The Ministry retained a four percent stake in SFM following its privatization The Ministry as well as the entire Government of Poland had taken substantial risk with regard to SFM's privatization It could not afford politically or economically for the company to fail The Ministry trusted Mr Medza, however, it did not want to risk further fear or distrust of the privatization process related to mass layoffs at SFM or forced reorganization Ministry officials looked to Mr Medza to find a solution which would improve SFM's financial performance without causing severe casualties among the workers and their strong trade unions

The Agenda for the First Meeting

Looking over SFM's records, Mr Medza could see that the company's need for deep operational and organizational restructuring had not diminished Although SFM's debt had been eliminated just before privatization by the State Treasury, Medza remained deeply concerned about SFM's ongoing performance He was sure that once the shareholders examined the firm's financial results closely, they would be searching desperately for ways to reduce operating costs

The present company directors were well aware of the company's financial situation But Pawlak, along with most Supervisory Council and Management Board members, were opposed to aggressive actions Could a way be found to balance the social concerns of employees and management with the harsh realities of the company's economics? How would the shareholders react to this situation? Mezda asked existing board members and representatives of the new owners to attend a meeting to discuss the upcoming general meeting of shareholders His objective was to create an atmosphere of frank exchanges between the new owners and the existing management and employees that would help create consensus rather than accentuate dissent He set out to structure a preliminary agenda for the general meeting and make his recommendations Medza believed that because of long work in the Polish government on SFM, his opinion would carry a good deal of weight with both existing directors and the new owners

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Group Role Play

Instructions for the Participants in Mr Medza's Team

Mr Medza and his team are about to present their recommendations to the representatives of the main shareholders on a strategy for managing the first General Meeting of Shareholders Mr Medza and his team represent the two largest investors in SFM, WISLA and NARTA Both groups wish to protect their investments and enhance the value of SFM Given the company's current poor performance, these investors endorse a swift and aggressive restructuring plan This team's recommendations should address the following issues a) discussion of the company's financial situation, b) the role of workers and management, c) the makeup of the management and supervisory boards, d) communications between the boards and shareholders There may be other issues, so this team should feel free to identify these as well

Recommendations on each issue must be well substantiated Mr Medza knows that the directors are by no means a homogenous group, and many of the recommendations he has may be quite acceptable to some and totally unacceptable to others He and his staff must be able to anticipate how each group of directors, from those representing the IFC, to those representing management and those representing the workers, is likely to react to the proposed strategy

Though the laws in Poland are different from those in your country, the principles and issues arising in these first meetings are very similar Think carefully about how to apply what has been discussed in the course this far

The role play discussion will involve teams representing company management (Pawlak), the employees, domestic investors WISLA and NARTA (Mezda) and the International Finance Corporation (IFC) who represents various foreign investors Mr Mezda will host the meeting The goal of the meeting is to bring together the main shareholders to discuss the upcoming General Meeting

Instructions for the Participants in Mr Pawlak's Team

Mr Pawlak, managing director of SFM is determined to keep tight control over the Shareholders' Assembly He is convinced that he alone is best suited to take the company out of the present crisis situation Outsiders do not understand the needs of the company or its employees like he does He is skeptical of Medza's recommendations Medza is a bureaucrat, and has relatively little experience managing company operations He does not understand the furniture industry like he does He does not know the company suppliers like Pawlak does

Mr Pawlak has assembled a team of loyal supporters to help him develop his own strategy for controlling shareholders and conducting the meeting in a manner that will ensure that his opinions are given the weight they deserve In particular, his team will develop recommendations on how to address the following issues a) discussion of the company's financial situation, b) the role of workers and management, c) the makeup of the supervisory and management boards, d) communications between the Boards and Shareholders There may be other issues, so this team should feel free to identify these as well

Recommendations on each issue must be well substantiated Mr Pawlak knows that the directors are by no means a homogenous group, and many of the recommendations he has may be quite acceptable to some and totally unacceptable to others He and his staff must be able to anticipate how each group of directors, from those representing the IFC, to those representing WISLA and NARTA, and those representing the workers, is likely to react to the proposed strategy

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Instructions for the Participants on the Employees Team

Employees had retained a 16 percent share in the company The workers are concerned about their job security under present management Though Mr Pawlak and his team seem to be genuinely interested in preserving jobs, several of the Employees believe that this management lacks the expertise to enable the company to survive in a new market driven economy Many of the younger workers are leaving for better paying jobs in newly established companies in the region,, some are talking about relocating abroad Many believe that Mr Sliwocki, a long-time senior manager at SFM is far more qualified than Mr Pawlak He is much younger, and more familiar with new economic terms Also, he enjoys the trust of many leaders in the union

Workers are also concerned about what the new foreign owners may do, as they now control 24 percent of the shares They have heard that they the new foreign shareholders wish to close several of SFM's plant, the company's recreation and housing facilities and are planning to fire several hundred workers But to do this, the new foreign shareholders need to get control of the Board

In sum many employees believe they are caught in a difficult circumstance They are unable to trust existing management to save the company--and unable to trust new owners with the interest of the workers

Employees have assembled a team to develop their own strategy for controlling shareholders and conducting the meeting in a manner that will ensure that their interests are served In particular, the team will develop recommendations on how to address the following issues a) discussion of the company's financial situation, b) the role of workers and management, c) the makeup of the supervisory and management boards, d) communications between the Boards and Shareholders There may be other issues, so this team should feel free to identify these as well

Recommendations on each issue must be well substantiated Employees know that the directors are by no means a homogenous group, and many of the recommendations they have may be quite acceptable to some and totally unacceptable to others They must be able to anticipate how each group of directors, from those representing the IFC, to those representing management and those representing WISLA and NARTA, is likely to react to the proposed strategy

Though the laws in Poland are different from those in your country, the principles and issues arising in these first meetings are very similar Think carefully about how to apply what has been discussed in the course this far

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The role play discussion will involve teams representing company management (Pawlak), the employees, domestic investors WISLA and NARTA (Mezda) and the International Finance Corporation (IFC) who represents various foreign investors Mr Mezda will host the meeting The goal of the meeting is to bring together the main shareholders to discuss the upcoming General Meeting

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Instructions for the Participants in the IFC's Team

The IFC is a very prestigious international organization Its highly trained team of experts make investments around the world The IFC is well acquainted with SFM The IFC team is determined to enhance the value of their investment by implementing an aggressive restructuring plan and infusing the company with new management ideas and new managerial resources and expertise They approach the meeting with the intention of replacing as quickly as possible Mr Pawlak and his staff They view the current director as ineffective and unaware of the new economic environment in which SFM must now operate

The IFC Team has been able to gain the support of many of the new shareholders and plan to approach the meeting with their own set of recommendations on the following issues a) discussion of the company's financial situation, b) the role of workers and management, c) the makeup of the supervisory and management boards, d) communications between the Boards and Shareholders There may be other issues, so this team should feel free to identify these as well

Recommendations on each issue must be well substantiated The IFC knows that the directors are by no means a homogenous group, and many of the recommendations he has may be quite acceptable to some and totally unacceptable to others The IFC representatives must be able to anticipate how each group of directors, from those representing WISLA and NARTA, to those representing management and those representing the workers, is likely to react to the proposed strategy

Though the laws in Poland are different from those in your country, the principles and issues arising in these first meetings are very similar Think carefully about how to apply what has been discussed in the course this far

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Background materials

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Notice of Record Date

for
BCE, Inc

Published in
New York Times
February 23, 1995

Notice of Record Date

Th Annual Meeting of the Shareholders of BCE Inc. will be held at the Imperial Theatre, 24 King Square South, Saint John New Brunswick, on Wednesday May 3 1995 at 10:30 a m (local time).

Shareholders registered at the close of business on March 15 1995 will be entitled to receive notice of the meeting.

THE NOTICE OF MEETING AND MANAGEMENT PROXY CIRCULAR WILL BE MAILED TO THE SHAREHOLDERS ON OR ABOUT MARCH 16, 1995

By order of the Board of Directors,

Josef J Fridman,
Senior Vice President, Law and
Corporate Secretary

Montréal, January 25, 1995

BCE Inc.

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Extracts from American Express Company Notice and Proxy Statement

AMERICAN EXPRESS COMPANY
AMERICAN EXPRESS TOWER
WORLD FINANCIAL CENTER
NEW YORK, NEW YORK 10285

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held April 26, 1993

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of American Express Company a New York corporation will be held at the Operations Center of American Express Travel Related Services Company Inc 6500 Airport Parkway Greensboro North Carolina 27425 (see directions on back cover) on Monday April 26 1993 at 10 00 A M local time for the following purposes

1 To elect directors

2 To ratify the selection by the Company s Board of Directors of Ernst & Young independent auditors to audit the accounts of the Company and its subsidiaries for 1993

3 To consider and vote upon an amendment to the Company s 1989 Long Term Incentive Plan authorizing an additional 23 5 million common shares for issuance thereunder

4 To consider and vote upon the adoption of a stock option plan to permit grants of a limited number of stock options to non employee directors and

5 6 and 7 To consider and vote upon three shareholder proposals relating to cumulative voting political contributions and the CERES Principles respectively each of which the Board of Directors opposes

To transact such other business as may properly come before the meeting or any adjournment thereof

By Order of the Board of Directors

STEPHEN P NORMAN
Secretary

March 18 1993

Whether or not you intend to be present at the meeting, please mark, sign and date the enclosed proxy and return it in the enclosed prepaid envelope

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AMERICAN EXPRESS COMPANY
AMERICAN EXPRESS TOWER
WORLD FINANCIAL CENTER
NEW YORK NEW YORK 10285

March 18 1993

PROXY STATEMENT

Vote by Proxy

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of the Company for the Annual Meeting of Shareholders to be held on Monday April 26 1993 and any adjournment thereof A copy of the notice of the meeting is attached This proxy statement and the accompanying form of proxy are first being mailed to shareholders on or about March 18 1993

You are cordially invited to attend the meeting but whether or not you expect to attend in person you are urged to mark sign and date the enclosed proxy and return it in the enclosed prepaid envelope Shareholders have the right to revoke their proxies at any time prior to the time their shares are actually voted If a shareholder attends the meeting and desires to vote in person his or her proxy will not be used

The enclosed proxy indicates on its face the number of common shares registered in the name of each shareholder of record on March 8 1993 including shares that may have accumulated through automatic reinvestment of dividends in the Company s Shareholder s Stock Purchase Plan

Proxies furnished to employees indicate the number of shares credited to their incentive savings plan and employee stock ownership plan accounts Accordingly proxies returned by employees who participate in such plans will be considered to be voting instructions to the respective plan trustees with respect to shares credited to such accounts

Confidential Voting

As a matter of Company practice the proxies ballots and voting tabulations relating to individual shareholders are kept private by the Company Such documents are available for examination only by the Inspectors of Election and certain employees of the Company s independent tabulating agent engaged in processing proxy cards and tabulating votes The vote of any individual shareholder is not disclosed to management except as may be necessary to meet legal requirements However all comments directed to management from shareholders whether written on the proxy card or elsewhere will be forwarded to management

General

Unless contrary instructions are indicated on the proxy all shares represented by valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted as follows

FOR the election of all nominees for director named herein

FOR ratification of the selection of Ernst & Young as independent auditors for 1993

FOR the amendment to the Company s 1989 Long Term Incentive Plan authorizing additional shares for issuance

FOR the adoption of the 1993 Directors Stock Option Plan

AGAINST the shareholder proposal relating to cumulative voting

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~~Furlaud each received an annual retainer of $2,500 for serving on the Finance Committee and Mr. Bowen received an annual retainer of $2,500 for serving on the Audit Committee. Mr. B... resigned from the SLBH Board of Directors and its committees on February 22, 1992. The above retainers and fees are presently expected to continue for 1993 except that Mr. Furlaud, who has continued to serve as a director and as a member of the Finance Committee of SLBH, will not receive any of the described retainers or fees for such service.~~

~~In addition, Messrs. Culver, Furlaud and Penske are eligible to participate in the SLBH Retirement Plan for Non-Employee Directors and the SLBH Deferred Compensation Plan for Non-Employee Directors, which are similar to the Company's plans described above.~~

~~Messrs. Duncan and Pappone serve as directors of American Express Bank Ltd. ("AEB"), for which each receives an annual retainer of $20,000 and fees of $1,000 for attendance at each board meeting. Mr. Duncan also receives an annual retainer of $5,000 as Chairman of the Audit Committee and $750 for attendance at each committee meeting.~~

ELECTION OF DIRECTORS

An entire Board of Directors, consisting of 15 members, is to be elected at the meeting, to hold office until the next Annual Meeting of Shareholders. In the case of a vacancy, the Board of Directors, upon recommendation of the Compensation, Benefits and Nominating Committee, may elect another director as a replacement or may leave the vacancy unfilled. Decisions regarding the election of new directors during the year normally are based upon such considerations as the size of the Board and the need to obtain new perspectives or to replace the particular skills or experience of former directors.

During 1992, the Board of Directors met 12 times and each of the current directors attended more than 75 percent of the meetings of the Board and of the Board committees on which the director served. During November and December 1992, Mr. Jordan took a leave of absence from his duties as a director of the Company to serve as Chairman of the Clinton administration's transition team.

Unless authority to vote is withheld, the persons specified in the enclosed proxy intend to vote for the following nominees, all of whom have consented to being named in this proxy statement and to serve if elected. Although management knows of no reason why any nominee would be unable to serve, the persons designated as proxies reserve full discretion to vote for another person in the event any nominee is unable to serve.

The following information is provided with respect to the nominees for directorships. Italic type indicates principal occupation.

ANNE L. ARMSTRONG Director since 1983

Chairman of the Board of Trustees, Center for Strategic and International Studies, 1987 to present. Chairman, President's Foreign Intelligence Advisory Board, 1981 to 1990. United States Ambassador to Great Britain and Northern Ireland, 1976 to 1977. Director, General Motors Corporation, Halliburton Company, Boise Cascade Corporation and Glaxo Holdings Plc. Member, Board of Regents, Smithsonian Institution.

~~WILLIAM G. BOWEN Director since 1988~~

~~*President, The Andrew W. Mellon Foundation,* a not-for-profit corporation engaged in philanthropy, 1988 to present. President, Princeton University, 1972 to 1988. Director, Merck & Inc. and Reader's Digest Association Inc. Member, Board of Trustees, Denison University.~~

DAVID M. CULVER Director since 1980

Chairman, CAI Capital Corporation, a Canadian ...

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In the event a shareholder specifies a different choice on the proxy his or her shares will be voted in accordance with the specification so made

The Company s Annual Report to Shareholders which contains financial statements for the year ended December 31 1992 accompanies this proxy statement A copy of the Company s Annual Report to the Securities and Exchange Commission on Form 10 K exclusive of certain exhibits may be obtained without charge by writing to Stephen P Norman Secretary American Express Company American Express Tower World Financial Center New York New York 10285 5170

Cost of Proxy Solicitation

The cost of soliciting proxies will be borne by the Company Proxies may be solicited on behalf of the Company by directors officers or employees of the Company in person or by telephone facsimile transmission or telegram The Company has engaged the firm of Morrow & Co to assist the Company in the distribution and solicitation of proxies The Company has agreed to pay Morrow & Co a fee of $12 500 plus expenses for its services

The Company will also reimburse brokerage houses and other custodians nominees and fiduciaries for their expenses in accordance with the regulations of the Securities and Exchange Commission (SEC) the New York Stock Exchange and other exchanges for sending proxies and proxy material to the beneficial owners of common shares

The Shares Voting

The only voting securities of the Company are common shares of which there were 481 242 0[illegible] shares outstanding as of March 8 1993 each share being entitled to one vote To the knowledge of management no person beneficially owns more than five percent of the outstanding voting shares of the Company The closing price of the Company s common shares on March 8 1993 as reported on the New York Stock Exchange Composite Transactions Tape was $26 75 per share

Vote Required

The 15 nominees receiving the greatest number of votes cast by the holders of the Company s common shares entitled to vote at the meeting will be elected directors of the Company

The affirmative vote of the holders of a majority of all outstanding shares entitled to vote is necessary for the adoption of the amendment to the Company s 1989 Long-Term Incentive Plan and for the adoption of the 1993 Directors Stock Option Plan The affirmative vote of a majority of the votes cast at the meeting is necessary for the ratification of the selection of auditors and for the adoption of each of the shareholder proposals

Method of Counting Votes

Each common share is entitled to one vote Votes will be counted and certified by the Inspectors of Election who are employees of Chemical Bank the Company s independent Transfer Agent and Registrar Under SEC rules boxes and a designated blank space are provided on the proxy card for shareholders to mark if they wish either to abstain on one or more of the proposals or to withhold authority to vote for one or more nominees for director ~~In accordance with New York State law such abstentions are not counted in determining the votes cast in connection with the selection of auditors and the approval of the shareholder proposals However abstentions are considered in determining the numbers of votes required to attain a majority of the outstanding shares in connection with the proposal to amend the 1989 Long-Term Incentive Plan and adopt the 1993 Directors Stock Option Plan Because both of these proposals require the affirmative vote of a majority of all outstanding shares entitled to~~ [illegible]

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~~The New York Stock Exchange has informed the Company that the management's proposal may be considered [illegible] upon which brokerage firms may vote in their discretion on behalf of their clients if such clients have not furnished voting instructions within ten days of the Annual Meeting. However, the shareholder proposal [illegible] and brokers will need specific voting instructions from beneficial owners who do not have discretion to vote on [illegible]. Such broker non-votes will not be considered as votes cast in determining the outcome of the shareholder proposal.~~

Shareholders Entitled to Vote

Only shareholders of record at the close of business on March 8, 1993 will be entitled to notice of and to vote at the Annual Meeting of Shareholders.

Security Ownership of Directors and Executive Officers

The following table sets forth, as of March 8, 1993, beneficial ownership of common shares of the Company by each current director and nominee for director and by all current directors and executive officers of the Company as a group. ~~Except as described below, each of the persons and group listed below has sole voting and investment power with respect to the shares shown. No current director, nominee or executive officer of the Company beneficially owns any of the Company's outstanding preferred shares or, except as noted in footnote 3 and 7 below, any common shares of First Data Corporation ("FDC"). As of March 8, 1993, the Company owned approximately [illegible] percent of the issued and outstanding common shares of FDC.~~

Names of Directors and Nominees	Number of American Express common shares owned (1)(2)	Number of American Express common shares which may be acquired within 60 days (3)
Anne L. Armstrong	1 500	5 000
William G. Bowen	1 500	3 000
~~[illegible]~~	~~20 000~~	~~2 000~~
David M. Culver	1 248	5 000
Charles W. Duncan Jr	52 060	5 000
George M. C. Fisher	1 000	1 000
Richard M. Furlaud (5)	25 000	5 900
Harvey Golub	102 560	[illegible]2 557
Beverly Sills Greenough	1 500	1 000
F. Ross Johnson	9 000	[illegible] 900
Vernon E. Jordan Jr	1 726	5 000
Henry A. Kissinger	2 400	5 900
Drew Lewis	15 000	5 000
Aldo Papone	36 058	12[illegible]
Roger S. Penske	10 000	2 900
Frank P. Popoff	1 000	1 000
Joseph H. Williams	947	7 000
All current Directors and Executive Officers as a group (25 individuals) (6) (7)	6[illegible]259	1 720 [illegible]

(1) The number of shares owned by Mr. Golub and all directors and executive officers as a group [illegible] includes 354 and 26 845 shares held in their respective incentive savings plan and employee stock ownership plan accounts as of dates ranging from December 31, 1992 to February 28, 1993.

The number of common shares shown does not include shares as to which the nominees have [illegible] beneficial ownership, as follows: 400 shares owned [illegible] [illegible]

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Выдержки из уведомления и доверенности компании American Express

AMERICAN EXPRESS COMPANY
AMERICAN EXPRESS TOWER
ВСЕМИРНЫЙ ФИНАНСОВЫЙ ЦЕНТР
НЬЮ-ЙОРК, 10285

УВЕДОМЛЕНИЕ О ЕЖЕГОДНОМ СОБРАНИИ АКЦИОНЕРОВ
26 апреля 1993 г.

Настоящим уведомляем Вас, что ежегодное собрание акционеров комгании American Express, нью-йоркской корпорации, состоится в Центре операций Службы путешествий Компании по адресу 27425, Северная Каролина, Гринсборо, Airport Parkway 6500 (см инструкции на обратной стороне) в понедельник 26 апреля в 10 часов утра по местному времени для рассмотрения следующих вопросов

1 Выбрать директоров,

2 Одобрить решение Совета директоров Компании о проведении аудита счетов Компании и ее филиалов за 1993 г независимой аудиторской компанией "Ернст энд Янг",

3 Рассмотреть и провести голосование по Поправке к Долгосрочному плану стимулирования деятельности Компании 1989 г которая предусматривает дополнительный выпуск 23 5 млн обыкновенных акций,

4 Рассмотреть и провести голосование по принятию плана опциона акций, который предоставляет некоторое огранченное число опционов акции директорам, не работающим в Компании, и

5, 6 и 7 Рассмотреть и провести голосование по трем предложениям акционеров о кумулятивном голосовании, политическим взносам и принципам CERES, против которых Совет директоров возражает

Рассмотреть другие вопросы, которые могут возникнуть до начала собрания или в случае его переноса

По поручению Совета директоров

СТИВЕН П НОРМАН
Секретарь

18 марта 1993 г

Независимо от того, собираетесь Вы присутствовать на собрании или нет, пожалуйста, заполните, подпишите и поставьте дату в прилагаемой доверенности и отправьте ее в прилагаемом конверте

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PROXY—THE CHASE MANHATTAN CORPORATION
Common Stock
Proxy Solicited by Board of Directors for the Annual Meeting of Stockholders—April 20, 1993

William J Armstrong and David C Crikelair and each of them with full power of substitution are hereby appointed proxies to vote all shares (unless a lesser number is specified on the other side) of Common Stock of The Chase Manhattan Corporation that the undersigned would be entitled to vote at the Annual Meeting of Stockholders of the Corporation to be held at 1 Chase Manhattan Plaza New York New York on April 20 1993 at 2 30 P M and any adjournments thereof with all powers the undersigned would possess if personally present for the Election of Directors on each of the other matters described in the Proxy Statement and otherwise in their discretion

The Shares represented by this proxy will be voted as directed by the stockholder Authority to vote such shares "FOR" the Election of Directors (No 1) will be deemed granted by the signed proxy unless withheld If no contrary direction is given, such shares will be voted FOR" the Approval of Auditors (No 2) and "AGAINST" the Stockholder Proposals (Nos. 3-6)

(Continued and To Be Signed and Dated on the Other Side)

Management recommends a vote FOR Nos 1 and 2

Common Stock

1 Election of Directors

For

Withhold Authority

Ryan Finkelstein Fuller Lewis McArthur and Whitmore

(To withhold authority to vote for any particular nominee write the name below)

____

2 Approval of Auditors

FOR AGAINST ABSTAIN

Management recommends a vote AGAINST Nos 3-6

3 Reinstate Annual Election of All Directors

FOR AGAINST ABSTAIN

4 Third World Loans

FOR AGAINST ABSTAIN

5 Cumulative Voting for Directors

FOR AGAINST ABSTAIN

6 South Africa Policy

FOR AGAINST ABSTAIN

PROXY

SIGNATURE(S) SHOULD AGREE WITH NAME(S) SHOWN AT LEFT SIGNING FOR ESTATES TRUSTS OR CORPORATIONS TITLE OR CAPACITY SHOULD BE STATED IF SHARES ARE HELD JOINTLY EVERY HOLDER SHOULD SIGN

____
SIGNATURE

____
SIGNATURE

DATE______________________________ 19

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[redacted]

[redacted] MAJORITY AND CUMULATIVE VOTING SYSTEMS

The way votes may be cast by stockholders in the election of the board of directors depends on the system specified by the corporate charter.

Majority Voting

Under a *majority voting system* [redacted] each stockholder may cast one vote for each share held in the election of *each* director. Thus if nine directors are to be elected, the votes of a simple majority of the shares voted may elect all nine directors. No directors may be elected by the holder(s) of a minority of the shares.

Cumulative Voting

[redacted] This system provides that each shareholder is entitled to votes equal to the number of shares held times the number of directors to be elected. Thus, if nine directors are to be elected, the holder of 100 shares is entitled to 900 votes. Those 900 votes may be distributed among any of the candidates in any way that stockholder chooses. For example, all 900 votes could be cast for a single candidate, or they could be distributed 300 each to three candidates.

A cumulative voting system allows the holders of a sufficiently large minority of the shares to elect one or more directors. A formula may be used to determine how many shares of stock must be voted to elect any given number of directors under cumulative voting. Let

N_r = The number of shares required to elect a desired number of directors
N_t = The total number of shares voted
D_c = The number of directors desired
D_t = The total number of directors to be elected

Then calculate N_r by using the following formula:

$$N_r = \frac{N_t \times D_c}{D_t + 1} + 1 \qquad (18A\text{-}1)$$

For example, assume that XYZ Corporation will elect nine directors at its annual stockholders' meeting. Ninety thousand shares are expected to be voted. A group of stockholders opposed to management hopes to elect three

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directors by concentrating its votes on three candidates. How many shares will they have to control to elect these three directors? Solve for N_e as follows:

$$N_e = \frac{90{,}000 \times 3}{9 + 1} + 1$$

$$= \frac{270{,}000}{10} + 1$$

$$= 27{,}001 \text{ shares}$$

This assumes that management controls all the remaining 62,999 shares and would spread votes in an optimal fashion. If there were additional candidates and other minorities seeking to elect directors, this group possibly could elect three directors by voting fewer shares than indicated. There is a certain amount of gamesmanship involved in proxy fights.

Note that less than one third of the shares voted (slightly over 30 percent) were required to elect one third (33.3 percent) of the directors. Although cumulative voting results in roughly proportional representation of opposing stockholder groups, it is not exactly proportional. Also note that 9,001 shares are required to obtain one seat on the XYZ board. Any minority position smaller than that is ineffective.*

The relative merits of cumulative versus majority voting are debatable. The cumulative system appeals to our democratic instincts and implies greater equity in the representation of the stockholders on the board. In some cases minority representation may be beneficial by providing consideration of divergent views. There is, however, another side to this coin. In some cases minority representation may result in constant bickering among the directors, impairing managerial efficiency.

On net balance the question of which voting system is superior appears to relate to the nature of the firm's operations. If operations are relatively routine and strategic policies may be deliberated at length without endangering the firm's viability, cumulative voting appears advantageous. [redacted] On the other hand, many firms operate in dynamic, highly competitive markets in which technological and market changes occur frequently and rapidly. In such firms timing of strategic policies and actions, such as development of new products or efforts to capitalize on emerging marketing opportunities, is of the essence. In such a firm, divergent factions on the board may engage in bickering about strategic actions while their majority-controlled competitors are acting to seize opportunities. At the extreme, minority representation may result in loss of operational viability of the firm.

* If this formula is used to determine the number of directors that can be elected by voting a given number of shares, any *fractional* number of directors must be dropped. Clearly, one cannot elect a part of a person.

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Annual Shareholders' Meeting Preparation and Follow-Up

The following checklist is designed to serve for the public company in its preparation for an annual meeting

- Actions requiring shareholder approval (usually specified in the Charter of the joint-stock company) For example
    - Adoption of changes in the Charter
    - Election of directors
    - Issuing of stock
    - Mergers, dissolution, major acquisitions
    - Sale of a substantial part of corporate property, outside the ordinary course of the company's business
    - Increase in capital stock
- Date for meeting The date for the meeting can be established by tradition or specified in the bylaws According to Regulation 601 an annual meeting must be held within three months of the end of the year
- Location There is no limitation on where to hold the annual meeting Frequently, large foreign corporations prefer to move their meeting around the country in an attempt to encourage shareholder involvement
- Regional meeting Some foreign companies provide for regional meetings or briefing sessions to meet shareholders who are unable to attend the regular meeting
- Physical facilities Many companies rely on a company meeting room or use parts of their manufacturing facilities for the annual meeting You may also consider renting a movie theater or some available facility if you expect a lot of people
- Reservations for corporate personnel If the meeting is to be held not in the headquarters location, room reservations must be made for corporate officers and for employees who will be involved When the meeting is being held in the home city, reservations should be made for major out-of-town shareholders who are expected to attend and for corporate officers who will be coming from other cities
- Transportation If the meeting is not being held in the central location, transportation should be arranged for shareholders
- Refreshments Many companies provide coffee and other refreshments for their shareholders

- Gifts for shareholders Some companies provide a gift in the form of a souvenir or a sample of one of the company's products to be given to the shareholders attending the meeting

- Plant tours Where the meeting is held at a plant or in the same city as a major corporate facility, a post-meeting tour of the facility can be an excellent way to improve shareholder relations

- Proxy The corporate secretary is usually responsible for the preparation of proxy material and planning for its distribution

- Annual report The corporate secretary is normally responsible for planning and distributing the annual report

- Notice of meeting The company should forward the notice of the meeting, indicating the time, place and subject of a meeting to all registered shareholders with the right to vote

- Checklist and time schedule A list of various steps in the preparation for the meeting is sent to officers and directors who will be involved in the meeting preparations, as well as to the registrar

- Record date It is essential to establish a date on which shareholders of record will be fixed for purposes of receiving notice and voting at the shareholder meeting Usually the record date is set by the board of directors

- Agenda The agenda for the meeting must be set in advance It must be reflected in the proxy statement and should be distributed to the shareholders at the meeting The agenda is usually prepared by the general director and the board of directors, and it is based on a proposed agenda submitted by the corporate secretary or the legal department

- Inspectors of election The inspectors of election may be corporate employees, or arrangements may be made with a bank or other outside organization for inspectors of election The inspectors take an oath to perform then duties impartially

- Recording It is desirable for a company to take minutes of the meeting, a tape recording or a videotape of the meeting may be a helpful backup

- Registration In some countries, companies provide shareholders with advance-admission passes to the meeting Many corporations instead only provide for shareholder registration at the meeting, a registration list is then made available for checking the status of any individual about whom there is doubt Even in the case when advance admission passes to the meeting are sent out, a registration list should still be made available at the meeting for shareholders who arrive without passes

- Ballots Ballots should be prepared for use at the meeting Most foreign companies make a practice of providing one ballot for all of the issues being presented at the meeting Additional ballots should be prepared in case a shareholder proposal arises at the meeting

- Security It is a good idea to hire some local security personnel However, there should not be an impression given that the meeting is an armed camp

- Shareholder questions Possible shareholder question should be anticipated by checking correspondence with shareholders and by finding out what questions are being raised at other shareholders' meetings The legal department should be alerted to any shareholder proposals submitted prior to the meeting, whether or not the proposals were contained in the proxy material sent to shareholders

- Outline or script Either an outline or a detailed script should be prepared for the meeting, depending on the preference of the chairman of the meeting, who is usually the chairman of the board of directors or his deputy However, it is important that the agenda or script includes all items that must take place at the meeting It should be cleared well in advance with the legal department

- Resolutions The language of important resolutions should be defined in advance of the meeting and should be approved by those who are required to approve them

- Microphone If the meeting is to be held in a room requiring a public address system microphones must be provided - for speakers on the podium as well as for shareholders addressing questions or making comments from the floor

- Product displays Many foreign companies in consumer industries have found that the shareholders represent an excellent market for their products Even if the products are not consumer-oriented, it can be good shareholder relations to set up a display showing the products or explaining details of a new product It may be possible to use displays that the sales or marketing departments prepared for a trade show

- Employees Many foreign companies invite employees to their annual meeting, while others restrict the invitations to employees who are also shareholders Consider paying shareholder-employees for the time spend at the annual meeting

- Ushers In addition to the security personnel referred to previously, ushers and other assistance for the shareholders should be provided Often, local company personnel can be used When the meeting is also intended to acquaint shareholders with company products in the consumer area, it may be advantageous to have salesmen act as ushers In briefing the ushers, it is important to emphasize the importance of courtesy, both to shareholders and to any press representatives present

- Press relations Press relations is usually the responsibility of the public relations department, which will make the arrangements for press attendance

- Post-meeting report Many foreign companies now send their shareholders a post-meeting annual report This report usually summarizes the general director's report and gives a sampling of questions raised at the meeting

Agenda for Annual Shareholders' Meeting

- Call to order by the chairman
- Statement by corporate secretary as to
  - Notice of the meeting or
  - Waiver of notice of the meeting

  Presentation of the appropriate record as to notice or waiver
- Announcement by the chairman of the names and identities of the inspectors of election, who thereupon take and sign an oath to faithfully execute the duties of their office at such meeting
- Announcement by the chairman as to the availability of the list of shareholders for inspection
- Request by the chairman that in order to determine the number of shares present
  - Shareholders present in person advise the inspectors of that fact and of the number of shares they own
  - All proxies be submitted to the inspectors
- Report of the inspectors of the number of shares entitled to vote present in person and by proxy and that such number constitutes a quorum
- Statement by the chairman that the meeting is lawfully and properly convened and competent to transact the business for which it was called, as stated in the notice of the meeting
- Chairman's report
  - The nature of the report of the chairman will be determined by such factors as the size and attitude of the persons present at the meeting, whether a printed annual report was previously mailed to the shareholders, etc
  - At the conclusion of the report, the chairman should invite questions from the floor concerning corporate policies and operations Such questions should be addressed to the pertinent officer, and a strong effort should be made to respond to fair and proper questions
  - When the questioning is concluded, it is appropriated to move a ratification resolution, either in general terms or in terms of specific transactions, with respect to corporate policies and operations

- Nomination of candidates for directorship
- Election of directors
    - Uncontested election The counting of ballots proceeds and the validity of proxies is assumed except where they are obviously inadequate
    - Contested elections A definitive proxy count is critical In this connection, proxies will be examined as to adequacy of signature, time of execution, subsequent revocation, and execution by other than the registered owner The inspectors must make the policy determinations and establish the parameters for the contest
- Announcement by the chairman of the results of the election set forth in the inspection certificate
- Remaining matters specified in the notice, to be resolved by similar balloting procedures
- Discussion of new business matters, not specifies in the meeting notice
- Adjournment