<u>Company Report 3 - Corporate Governance Principles</u>

Merck & Co.'s corporate governance principles emphasize accountability, independence, and transparency. The company views strong governance as essential to long-term shareholder value, aligning the interests of directors, management, and investors. Merck's Board has adopted a set of Corporate Governance Guidelines, referred to as the "Policies of the Board," that establish oversight responsibilities, director qualifications, and governance practices (Merck & Co., 2025, p. 11).

Governance Policies/Philosophy

Merck's governance system highlights the independence of its Board, as 12 of 13 directors are independent, and all four standing committees (Audit, Compensation & Management Development, Governance, and Research) consist only of independent directors (Merck & Co., 2025, p. 14). Accountability to shareholders is reinforced through annual director elections by majority vote, with a mandatory resignation policy for any director who fails to secure majority approval (Merck & Co., 2025, p. 21).

The Board also undertakes annual self-evaluations to measure effectiveness and strengthen transparency (Merck & Co., 2025, p. 23). Executive compensation is closely tied to performance, with clawback policies in place and annual shareholder "say-on-pay" votes (Merck & Co., 2025, p. 28). Transparency is further emphasized by detailed disclosure of political contributions, lobbying expenditures, and charitable donations (Merck & Co., 2025, p. 27).

Alignment w/ Company Structure & Current Issues

These principles align closely with Merck's leadership structure and strategic priorities. Robert M. Davis currently serves as both Chairman and CEO, but the role is balanced by an independent Lead Director, Thomas H. Glocer, who has significant authority to oversee board agendas, executive sessions, and CEO succession planning (Merck & Co., 2025, p. 12). This dual leadership model provides continuity while maintaining independent oversight.

The Board's committee system also reflects Merck's operational focus. For example, the Research Committee oversees drug discovery and scientific integrity, ensuring that board governance extends to the company's core mission of pharmaceutical innovation (Merck & Co., 2025, p. 16). Similarly, the Audit Committee directly oversees cybersecurity risk, reflecting the importance of protecting intellectual property and sensitive patient data in Merck's global operations (Merck & Co., 2025, p. 18).

Notable Aspects

One progressive feature is Merck's shareholder rights policies. Shareholders owning 3% of stock for three years may nominate directors under proxy access, while holders of 15% of shares can call a special meeting (Merck & Co., 2025, p. 21). These rights are shareholder-friendly but also open the possibility for activist challenges. Another important policy is the tight prohibition on hedging, pledging, or short-selling Merck securities by directors and officers, which ensures alignment with shareholder interests but is more restrictive than many peers (Merck & Co., 2025, p. 27).

Questions

Despite the organized framework, how does the Board decide annually whether combining the Chairman and CEO roles best serves shareholders' interests? While risk oversight is described in detail, how does the Board evaluate reputational risks tied to ongoing debates about drug pricing or access to medicines? Lastly, while shareholder engagement is prioritized, the proxy statement does not explain how smaller retail investors' perspectives are balanced against large institutional investors (Merck & Co., 2025).

Conclusion

Merck's corporate governance principles reflect a best-practice framework rooted in independence, accountability, and transparency. With features such as proxy access, clawback policies, and strong independent oversight, Merck demonstrates a commitment to aligning governance with long-term strategic goals and shareholder trust.

Reference

Merck & Co., Inc. (2025). 2025 Proxy Statement. Retrieved from Merck & Co.

Investor Relations: https://www.merck.com/company-overview/leadership/board-of-directors