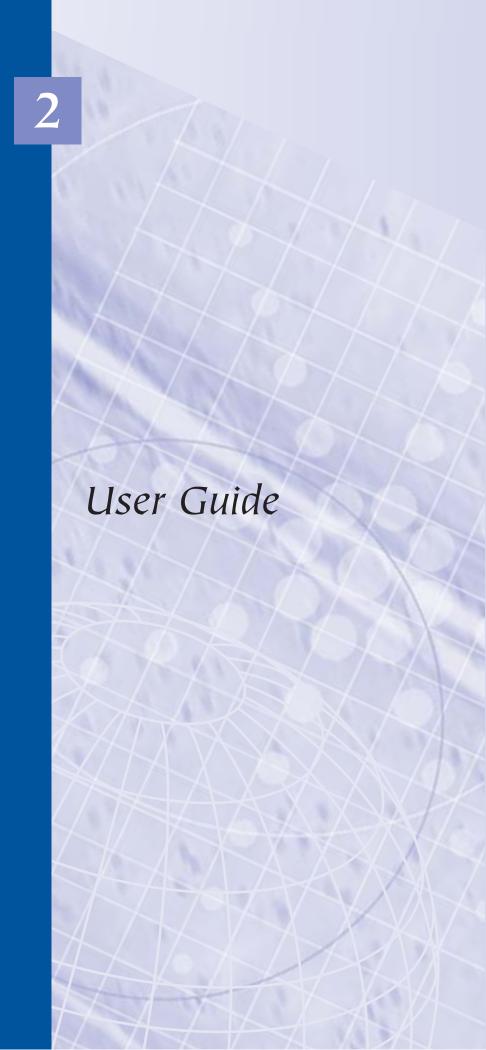
TOOLKIT

Developing
Corporate
Governance Codes
of Best Practice





TOOLKIT 2

Developing Corporate
Governance Codes
of Best Practice



USER GUIDE



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The Office of the Publisher The World Bank 1818 H Street NW Washington, DC 20433 Fax: 202-522-2422. ood corporate governance makes good, hard-nosed business sense. Countries with strong corporate governance practices attract capital. Today's domestic and international investors are likely to shy away from countries that do not guarantee investor rights, that do not provide for adequate corporate disclosure, and that do not ensure sound board practices.

Whilst globalization of economies has increased, and international corporate guidelines have been adopted, each country has its own values, societal norms, way of doing business, and special circumstances. Thus, to guide policymakers, market players, and corporations in adopting sound corporate governance practices at the local level, every country should endeavor to develop its own corporate governance code. It was with this knowledge that the Guidelines for Corporate Governance in the Commonwealth were written.

Of course the principles and guidelines of a country code need to follow international governance standards. Yet, while applying their minds to incorporate international principles, concepts, and developments into a country code, crafting committees must also integrate the special circumstances that pertain to that country.

When developing a corporate governance code, it is preferable to have the support of the government as well as the business community. This does not mean that a corporate governance code should be enforced by way of statute, but it does mean that the code crafting committee and the various task

teams that draft the code need to be handpicked so that business leaders, regulators such as stock exchanges, professional bodies such as lawyers and accountants, labor unions, and organized business such as chambers of commerce are all represented on the committee.

Many countries have now adopted corporate governance codes of best practices, but the governance of a company is a dynamic matter.

A written code of best practice does not become the law of the Medes and Persians that altereth not. In fact, the code must be revisited, improved, and revised as the conduct of business changes in response to changing mores in society.

In short, the establishment of a code of best practice in a country is a continuous labor of love. It takes time and effort, and there have to be willing participants who want to do it in the interests of their country. Having regard to international institutional investment taking place across an electronic, borderless world, however, every country today should endeavor to establish its own code within the parameters of internationaly approved principles and guidelines of corporate governance.

Morozn Kinj

Mervyn King, Chairman of the King Committee on Corporate Governance, South Africa

What is the purpose of this toolkit?

Corporate governance codes are essential tools for enhancing corporate governance practices at the national level. Their primary role is to raise standards and to drive reform efforts. Many developed and developing countries have adopted corporate governance codes of best practice to restore and sustain investor confidence in the wake of a financial crisis or corporate scandals. But corporate governance codes also serve as benchmarks for monitoring and implementing corporate practices and policies at the company level.

This corporate governance reform toolkit emphasizes the purpose and benefits of developing corporate governance codes of best practice. The toolkit focuses on the various steps involved in crafting, disseminating, implementing, monitoring, and reviewing corporate governance codes of best practice.

The toolkit aims to provide users with a variety of tools and examples that can help organizations and individuals produce best practice codes to help improve corporate governance practices at the country level. Because corporate governance codes have now been adopted in many countries, this toolkit draws attention to the importance of monitoring, updating, and improving existing codes of best practice.

The Global Corporate Governance Forum recognizes that there are many different ways and valid approaches to developing and implementing a corporate governance code. Codes can be successfully initiated by governments, business groups, or regulators. They can be implemented through market pressure, professional organizations, or listing rules. Whatever the chosen approach, it is essential that the code comply with international standards while addressing a country's specificities and reform needs.

What is in this toolkit?

This toolkit is divided into two volumes containing, respectively, three and five modules. The first volume addresses the rationale for developing a corporate governance code of best practice, whereas the second volume focuses on the practical process involved in developing and implementing a code. Toolkit users will find guidance on the parties involved in developing a corporate governance code, background materials and recommendations on how to draw up the content of a code, and advice on how to monitor and review existing codes.

Who will find this toolkit useful?

Stakeholders involved in developing, monitoring, and updating a corporate governance code

Although the toolkit provides essential guidance to organizations and individuals developing a corporate governance code for the first time, the methodology and guidance can also help standing corporate governance committees monitor, update, and improve existing corporate governance codes.

This toolkit is aimed primarily at:

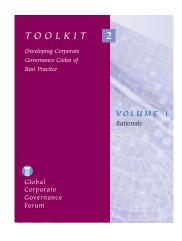
- Corporate governance committees or task forces in the process of developing a corporate governance code of best practices at the country level;
- Professional organizations, business associations, and regulators taking the leadership in developing or implementing a corporate governance code of best practice;
- Government agencies seeking to improve corporate governance standards and practices at the country level;
- Corporate governance committees and organizations monitoring, reviewing, and updating existing corporate governance codes.

Public and private organizations and institutions fostering corporate governance reform efforts

This toolkit can furthermore be a useful reference for any public or private organization interested or engaged in fostering corporate governance reforms efforts and who might be consulted about or associated with a new corporate governance initiative. These stakeholders may, for example, include policymakers, regulators, professional associations, training organizations, and the media.

Development agencies

This toolkit can provide useful support to multilateral and bilateral development agencies engaged in funding and supporting local corporate governance reform programs and strengthening corporate governance and disclosure practices at the company level.



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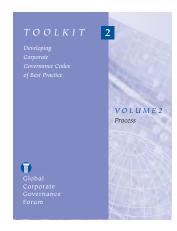
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Sample Step-by-Step Toolkit Rollout

STEPS	MEETING AGENDA	GO TO*	POST MEETING ACTIVITIES	GO TO
NITIAL			The formation of the committee	V2M1
ETUP			The appointment of the chairman	V2M1
			The appointment of a project manager	V2M1
			The appointment of a secretary	V2M1
			Initial consultation with key stakeholder	V2M1
			Premeetings and discussions between the chairman	V2M1
			and individual members of the committee	
			Securing funding and support	V2M2
	Discuss master schedule	V2M2	Finalize detailed master schedule	V2M2
1	Agree on the committee's	V2M2	Hire consultant	V2M1
	terms of reference			
	Consider challenges facing	V2M2	Review international best practices	V2M4
	the committee			
	Consider the target and scope	V1M2	Review the country's current laws, regulations, and	V2M4
	of the code	V2M2	practices	
	Consider implementation	V1M2	Review the country's corporate governance development	V2M4
	mechanisms and nature of	V2M5	needs and priorities	
	the code's provisions			
	Decide on appointment of	V2M1	Issue a press release explaining the process and	V2M3
	a consultant		describing the committee's terms of reference	
	Agree on initial press release	V2M3		
	Agree on finalized master	V2M2	Draft the consultation document	V2M3
2	schedule			V2M4
	Discuss the country's corporate	V2M4		
	governance needs and priorities			
	Review general research findings	V2M4		
	Agree on broad outline	V1M2	Consider methods of consultation	V2M3
	of the code	V2M4		
	Consider formation of	V2M4		
	subcommittees			
	Evaluate the committee's work	V2M2		
	and progress			
2	Discuss the draft of the	V2M3	Finalize consultation document	V2M3
3	consultation document	V2M4		V2M4
	Agree on consultation strategy	V2M3	Set up consultation process	V2M3
	and methods			
	Evaluate the committee's work	V2M2	Start researching specific content of the code	V2M4

EPS	MEETING AGENDA	GO TO*	POST MEETING ACTIVITIES	GO TO
4	Agree on consultation document	V2M3 V2M4	Continue research on specific content of the code	V2M4
	Discuss specific research	V2M4	Start consulting with key stakeholders	V2M3
	findings and content			
	Evaluate the committee's	V2M2	Begin drafting of complete code	V2M4
	work and progress			
_	Discuss consultation feedback	V2M4	Continue consulting with key stakeholders	V2M3
5	Discuss research findings	V2M4	Finalize first draft of the code	V2M4
	Discuss first full draft of code	V2M4	Develop dissemination and implementation strategy	V2M5
	Evaluate the committee's work	V2M2		
	and progress			
	Discuss second draft	V2M4	Modify second draft	V2M4
6	Discuss consultation feedback	V2M4	Draft foreword and preamble	V2M4
	Approve dissemination and	V2M5		
	implementation strategy			
	Evaluate the committee's work	V2M2		
	and progress			
	Agree on final code	V2M4	Final proof reading of code	V2M4
7	Agree on dates of launching event	V2M5	Arrangement of launch	V2M5
	Approve design	V2M4	Distribution of code	V2M5
	and format of code			
	Agree on press release	V2M5	Liaison with media	V2M3
				V2M5
	Evaluate the committee's	V2M2	Liaison with key stakeholders	V2M3
	work and progress			
	Assess impact of launch	V2M5	Adoption of the code by key stakeholders	V2M1
8				V2M5
	Agree on time frame and methods	V2M5	Integration of recommendations	V1M3
	to assess the code's impact		into company charters and policies	V2M5
	Agree on time frame to review	V2M5	Integration of selected recommendation into listing rules,	V2M3
	the code		securities regulations, and other laws and regulations	V2M5
	Final evaluation of the	V2M2	Monitoring and measuring the impact of the code	V2M5
	committee's work and progress	V2M5	Reviewing and updating the code	V2M5

What tools will you find in this toolkit?

/ Module tabs

Each module is introduced by a color tab that presents the rationale and the key content of the module. Further reading

Volume 1 provides an indicative list of readings that further discuss academic and practical issues related to this toolkit.

Thinking points

Each module features a number of thinking points to help users address key steps in developing, implementing, and reviewing a corporate governance code of best practice. Quotes

Individual modules include experts' quotes and extracts from existing corporate governance codes of best practice.

Examples

This toolkit does not advocate a one-size-fits-all model. Rather, it provides a menu of options through examples from around the world, from developing as well as developed countries. Annexes

Annexes in each volume provide background information and samples that can help users in their practical, step-by-step approach to developing a corporate governance code.

/ Cross-references

Each module includes crossreferences to other modules to direct users to related topics and guidelines. CD ROM

The entire toolkit is contained in the CD ROM included in this user guide.

MACEDONIA: V2 (47, 53, 64)

MALAYSIA: V1 (15, 39, 81)

 $\boldsymbol{\times}$ $\boldsymbol{\times}$ AUSTRALIA: V1 (11, 64); V2 (2) MEXICO: V1 (47, 82); V2 (56) BENCHMARKS: V1 (47-51, 57-58) 0 0 **AUSTRIA: V2 (22)** NETHERLANDS (THE): (41, 50, 83, CHALLENGES: V2 (23-29, 110-111) 84); V2 (9, 82) D \mathcal{D} ARGENTINA: V1 (28) COMMITTEE MEMBERS: V2 (8-15) Z N NEW ZEALAND: V2 (4) BANGLADESH: V1 (46, 51, 65); V2 COMPLIANCE: V1 (32-35); V2 (22, (6, 16, 25, 27, 45, 53, 61, 70, 71) PAKISTAN: V1 (34); V2 (2) 70-72, 79-80, 82) COMPLY OR EXPLAIN: BELGIUM: V1 (4, 66); V2 (9, 22, 56, PERU: V2 (14) C 61, 75) SEE COMPLIANCE PHILIPPINES (THE): V1 (15, 39, 48) BRAZIL: V1 (28, 35, 66, 67): V2 (6, CONSULTANTS: V2 (15-16, 85, 86-87, + 32, 54, 68, 69, 74) POLAND: V1 (45); V2 (23, 42, 46, 54, D Z 69, 76) CONSULTATION (METHODS): CANADA: V1 (68, 69); V2 (7, 9, V2 (37-48, 89, 90, 93-98) H 7 76, 80) ROMANIA: V2 (8, CONSULTATION (DOCUMENT): 0 0 CHINA: V1 (22, 23, 45, 48, 70); V2 RUSSIAN FEDERATION: V1 (22, 30, V2 (39-40, 93-96) (2, 3)31, 46, 85); V2 (63, 68, 69) 7 CONSULTATION (FEEDBACK): CHILE: V1 (43) SINGAPORE: V1 (43) V2 (62-64, 96) COLOMBIA: V1 (25) SLOVAK REPUBLIC: V2 (2, 7) CRISIS: V1 (37-39); V2 (26) DENMARK: V1 (71); V2 (4, 76, SOUTH AFRICA: V1 (21, 22, 33, 86); **DEFINITION (OF CORPORATE** 91-92) V2 (9, 10, 21, 42, 50, 56, 63, 68, 69, GOVERNANCE): V1 (1-5) 72, 79, 81) FRANCE: V1 (72, 73, 74); V2 (9) DISSEMINATING: V2 (67-70) SPAIN: V1 (87, 88); V2 (9) GERMANY: V1 (31, 35, 48, 49, 57, **EXPOSURE DRAFT: SEE** CONSULTATION DOCUMENT 58, 74); V2 (4, 5, 9, 15, 19, 27, 54, SRI LANKA: V1 (26, 33); V2 (6, 14, 24, 70, 75, 76, 80) 46, 77, 82, 85, 86-87, 90) **FUNDING: V2 (24-25)** HONG KONG (CHINA): V1 (26) SWEDEN: V1 (89) IMPACT ASSESSMENT: V2 (77-83) **HUNGARY: V2 (25)** SWITZERLAND: V1 (89); V2 (9, 54, 78) MASTER SCHEDULE: V2 (17-19) INDIA: V1 (4, 39, 75); V2 (21, 72, THAILAND: V1, (15, 27, 38, 39) 102-109) MEDIA: V2 (47-48, 68, 77, 91-92) TURKEY: V1 (4, 35, 37, 44); V2 (1, 7, INDONESIA: V1 (15, 39, 48, 76); 40, 42, 55, 77) MONITORING STRUCTURES: V2 V2 (2) (75-77, 112-113) UKRAINE: V1 (31, 45); V2 (15, 24, 47, ITALY: V1 (41, 42, 77): V2 (9) REFORM: V1 (44, 45, 47, 57-59) 53) JAPAN: V1 (78, 79) UNITED KINGDOM: V1 (1, 3, 17, 23, SCANDALS: V1 (6, 39-43) 31, 40, 42, 55, 56, 90, 91); V2 (3, 6, 9, KOREA (REPUBLIC OF): V1 (10, 12, 22, 43, 51, 65, 72, 73, 74, 82, 88, 89, STAKEHOLDERS: V1 (17, 18); V2 (2-8, 15, 30, 38, 39, 81); V2 (4, 19, 25, 42, 93-98, 112-113) 31-37) 54, 63, 75, 76) UNITED STATES: V1 (5, 10, 12, 15, 22, STANDARDS (INTERNATIONAL): V1 24, 34, 41, 42, 59-63, 91); V2 (7) KENYA: V1 (4, 25, 80); V2 (45) (28-30, 44, 47, 51-55, 73, 99-101)

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To develop this toolkit and gather lessons learned from developing and developed countries alike, the Global Corporate Governance Forum invited corporate governance reform champions from various regions of the world to share their experiences in developing corporate governance codes of best practice.

The Forum would especially like to thank the following people for their contribution to this toolkit by providing materials, examples, and extensive comments on the milestones and challenges involved in drafting, implementing, and reviewing corporate governance codes of best practice.

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TOOLKIT 2

Developing Corporate Governance Codes of Best Practice

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