Better Companies, Better Societies

Global Corporate Governance Forum

Eurasia Regional CG Codes Workshop
Tbilisi, Georgia
November 2009
Agenda for Presentation

- Role of the Forum
- Our Focus, Our Priorities
- Outline of International Standard Setting, Code Formulation
- OECD and some recent developments
- Some Things to Consider in Code Development
Delivering Global KM Tools & Resources

Offering high level quality expertise for development objectives

Sharing global best practices drawn from developed and developing countries

Creating enabling environment for corporate governance reform

Building on a Strong Mandate
The Forum seeks to raise the accountability, transparency and vibrancy of the private sector through strengthened corporate governance for long term financial sustainability in a socially responsible manner: “Better Companies, Better Societies.”

The Forum supports regional and local initiatives that address the corporate governance weaknesses of developing countries and emerging markets, through building institution capacity to guide and support implementation of good corporate governance practices. This serves to reduce the vulnerability of these economies to financial crises.
East Asia and Pacific region includes Cambodia, China, and Philippines; South & Southeast Asia region includes Maldives; MENA region includes Egypt, Lebanon, Algeria, Yemen, Tunisia, UAE, KSA, Jordan, Oman, Bahrain and Pakistan; Africa region includes Senegal, Nigeria, Malawi and Zambia; Southern Europe & Central Asia region includes Azerbaijan, Georgia, Bulgaria, FY Macedonia, Montenegro, Serbia, Albania, Bosnia & Herzegovina and Ukraine; LAC region includes Jamaica and Brazil.
Framework for Code Formulation

- **Global/Regional standards setting the benchmark**
  - OECD [part of World Bank/IMF 12 Core Standards]
  - European Commission Directives

- **Country standards**
  - e.g. United Kingdom, The Netherlands, Bulgaria, etc.

- **Industry initiatives**
  - e.g. Mining (EITI), Forestry, Banking (Basel)

- **Investor-specific standards**
  - e.g. ICGN, CalPERS, Aberdeen, Aviva, ABI, PIC, etc.

- **Regulatory standards**
  - e.g. NYSE, Johannesburg, Sydney, etc.

- **Corporate-specific standards**
  - e.g. Rio Tinto, BP, Lockheed Martin, Westpac, etc.
OECD CG Principles

- **Policy Framework NOT Prescriptive**
  - Identifies key areas of internationally accepted good practices

- **Aimed primarily at developed capital markets**
  - But, offers guidance on practices that apply to most markets

- **Stakeholder (CSR) issues are weak**
  - Attention given to legal obligations

- **Six core principles:**
  - Basis for an effective corporate governance framework
  - Rights of shareholders and key ownership functions
  - Equitable treatment of shareholders
  - Role of stakeholders
  - Disclosure and transparency
  - Responsibilities of the Board
OECD Response to Financial Crisis

- **Focuses on typical mature capital market issues**
  - Not that these should be ignored!

- **Four key focus areas**
  - Attention more towards guidance, than updated Principles

- **First – Governance of remuneration**
  - Question of aligning incentives and decision taking risks

- **Second – Designing effective risk mgt. processes**
  - Matching risks to business strategy
  - Giving appropriate relevance to risk-based functions

- **Third – Quality of board practices**
  - Need to emphasize competence, not just independence

- **Fourth – Emphasizing obligations of shareholders**
  - Concerns at lack of widespread activism, conflicts
Board Leadership Training Resources

- Emphasizes the development of leadership and analytical skills through highly interactive teaching techniques
- Provides a comprehensive set of materials and learning tools aimed at enhancing the role that directors play on their boards
- Provides approaches that directors can use to ensure that boards and managers adhere to best practices drawn from international experience

Materials are drawn from experiences of both developed and developing countries, and are the foundation to be adapted to specific regions and circumstances.
Other International Developments

- **Walker Report in the UK**
  - Primarily looks at financial sector, but issues common to companies
  - Behavioural issues identified as key concern

- **Investor Protection Act in the United States**
  - Offers guidance on practices that apply to most markets
  - More legislation and supervisory oversight to follow

- **King III in South Africa**
  - In response to new Companies law, provide practical guidance

- **Numerous other international initiatives**
  - IMF Sovereign wealth fund guidelines (Santiago Principles)
  - International oversight agencies, e.g. Basel, IOSCO
  - Seems like almost everyone is revisiting their CG guidance!!
Developing a CG Code

- **Must be Relevant** to business environment
  - Use international standards, regional examples as guidance
- **Address challenges Appropriate** to your market
  - Not “best in class”, but what works - it is a process!
- **Define required standards of business practice**
  - Not a substitute for deficiencies in legal system
  - Provide practical guidance to legal requirements
- **Ensure it matches Capacity** for enforcement
  - Align to market incentives for adherence/compliance
- **Local ownership of Process** essential
  - Use international and other expertise to inform and guide
Using a CG Code to Define Framework

Aligned Objectives and Processes

Conformance Processes
- Chairman/CEO
- Non-executive Directors
- Board Committee Framework
- Policy Directives
- Risk Management & Controls
- Assurance Processes
- Corporate Secretary/Legal Counsel

Performance Processes
- Strategic Planning & Alignment
- Strategic Decision Making
- Strategic Risk Management
- Performance Scorecard
- Strategic Enterprise Processes
- Improvement & Innovation

Accountability
- Assurance

Value Creation
- Resource Utilisation
Sample Board Governance Structure

**Audit Committee**
Monitoring all reporting, accounting, control and financial aspects of executive management activities

**Chairman’s Committee**
Considers board issues of governance, including the overall effectiveness of the chairman and the group chief executive

**Remuneration Committee**
Determines the remuneration of the group chief executive and executive directors

**Ethics and Environment Assurance Committee**
Monitors the non-financial aspects of executive management activities, such as ethical conduct, environmental matters and health and safety

**Nominations Committee**
Considers board composition and succession planning issues, including the appointment and reappointment of directors

Source: BP Sustainability Report
Six Critical Questions for Directors!

- Do I believe I have all the information?
- Have I the necessary skills to make this decision?
- Do I have any conflict in this matter?
- Objectively, is this a rational business decision?
- Can I explain this in a transparent manner?
- Is it a responsible discharge of my duties?
Global KM: Forum Thought Leadership

Focus Publications

Focus 8
- Stakeholder Engagement and the Board: Integrating Best Governance Practices

Private Sector Opinions

PSO Issue 15
- Uses and Limits of Conventional Corporate Governance Instruments: Analysis and Guidance for Reform – Part Two

Lessons Learned

For the Public Good
- Pro Bono Work of Private Sector Advisors Advances Corporate Governance Initiatives

Toolkits

Toolkit 3
- Corporate Governance Board Leadership Training Resources Toolkit
“…the substance of good corporate governance is more important than its form; adoption of a set of rules or principles or of any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.”

The Business Roundtable, USA