Better Companies, Better Societies

Good Governance: Key to Sustainability

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October 10.2010
Global Corporate Governance Forum

- **Purpose:**
  - Promoting corporate governance reform and good practices in emerging markets and developing countries

- **Donor-funded organization:**
  - Founded by the World Bank Group and OECD
  - Hosted and supported by the International Finance Corporation
  - Supported by Austria, Canada, France, Flanders (Belgium), Japan, Luxembourg, Norway, the Netherlands and Switzerland

- **Activities:**
  - Provides and funds technical assistance and training
  - Promotes knowledge sharing through Toolkits and Publications

- **Advised by private sector business leaders and investors through Private Sector Advisory Group (PSAG)**
Work Program

- **Target audience:**
  - Provides assistance to governments, CG reform advocacy and capacity building organizations, such as Institutes of Directors
  - 72 countries supported over FY06-10 in all regions

- **Focus Areas:**
  - Building Director Training Organizations
  - Developing Codes and Scorecards
  - Resolving Corporate Governance Disputes
  - Training the Trainers for Board Directors
  - Training Financial Journalists on how to cover CG issues

- **Knowledge products:** Lessons Learned, detailed “how-to” toolkits, case studies/academic research, and opinion pieces

- **Sharing Experiences:** A direct dialogue with the PSAG members
The view from a "Sustainability- investor"

Background as co-founing director of the World Business Council for Sustainable Development

Created in 2010 InSpire as a "seed investment" group with a focus on sustainable development and "clean-tech"

- REC (solar PV, co-founded 2000) IPO 2006
- Think Global (Electric Vehicles, 2006) IPO planned 2011/12
- ZEM (Zero Emission Mobility, 2008) IPO planned 2011
- Move About (EV Mobility on Demand, 2007) trade sale 2012
- Invito—Inspire (training of handicapped, 2004) trade sale 2011/12
- OptiNose (Medical device, 2001) trade sale 2012/13

Good governance allows to achieve a timely IPO or trade sale
What has happened over the last 10 years?

Even before the global economic crisis of 2008, several trends signaled a need for a new form of governance:

- “Death of distance”
- “the CNN Society”
- “Globalization for the Rich”
- “The loss of Corporate Innocence”
- “Erosion of Trust”
TRUST and The Reputation Risk

“**It takes 20 years to build a reputation, and five minutes to ruin it**”

- Warren Buffet, Chairman, Berkshire Hathaway

> The organization’s reputation is its most important asset.

The Millennium Poll found the following factors shaping company impression:

- Corporate citizenship (56%)
- Product quality (40%)
- Business fundamentals (34%)

In today’s global economy and Internet-connected world, reputation success or crisis is only a mouse click away.
Good Governance

Many expressions – what are their real meanings and their relevance for the Board of Directors in the MENA region?

- Board performance
- Sustainable Business

- Corporate Citizenship
- Socially responsible Investment (SRI)

- Corporate Social Responsibility (CSR)
What Is Meant by Board Performance?

Simply stated, board performance means the effectiveness of the board in overseeing management and the affairs of the company.

For financial institution it also includes ensuring that risks accepted by the financial institution can be safely managed. As suggested in the recent Walker Review in the UK, boards generally met the characteristics of good governance but failed to perform effectively.
Good Governance

- Good governance – the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees, pensioners and local communities, - ensures transparency, fairness, and accountability...

When this trust is undermined, lenders and investors lose their appetite for risk....
Why is Good Governance important for me as a “sustainable investor”?

Good Governance extends the traditional governance view to cover a Corporate Social Responsibility (CSR) dimension

A structured way to handle the challenges of a changing society

Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

CSR involves increased efforts to align corporate goals with those of society.

CSR implies profitability being judged by a longer time frame
What is Corporate Citizenship?

- Corporate Citizenship is defined by a clear call for *environmental, social* and *governance* responsibility - the three pillars of Sustainable Business

- It links directly to three fundamental functions of boards and their directors’ duties to the companies and shareowners they serve
What will **The Company of the Future** be judged by?

**Future**
- Reporting of non-financial information that impacts bottom line

**Present**
- Revival of financial reporting
- Focus on the corporate governance

**Market Value**
- Reputation
- Brand
- Trust
- Credibility
- Integrity
- Intellectual Capital
- Customer Loyalty
- Risk Management
- Social & Environmental Responsibility

**Tangibles**
- Financial Capital
- Physical Assets
Transparency is key: Truth does matter
A new Generations of Corporate Governance is emerging

- **First generation:**
  - focused on legal issues, structures and individual competencies and independence.

- **Second generation:**
  - stakeholder engagement
  - new models of accountability

- **Third generation:**
  - governance for Sustainability:
    - the ‘entity’ is the full value-chain
    - complex ‘partnerships’ to which oversight is needed and performance needs to be measured
    - Boards need to reflect different stakeholder interests
    - Competencies must go beyond technique and industry experience in demonstrating receptivity to new agendas
Stakeholders
(more than shareholders and employees)

Local community

Suppliers/business partners

Shareholders

Customers

Investors

NGOs

Own employees

Authorities
SHAREOWNERS OR OTHER STAKEHOLDERS
Reporting to

BOARD
Integration of corporate citizenship values, shareowner and other stakeholder interests in corporate strategy and risk management

MANAGEMENT
Mainstreaming corporate citizenship targets within company action plans and reporting to board on progress

DAY-TO-DAY OPERATIONS
Implementation of new policies in supply chain, marketing, standard operating procedures, and other business practices

Feedback from STAKEHOLDER ENGAGEMENT, including Ombudsman or Whistleblowers
Why good governance is important for building sustainable business in the MENA region

Thoughts about specific sustainable business opportunities in the UAE and the Region

I: Investors and Funds
How one can apply SRI – and Corporate Governance criteria efficiently to make MENA investments more transparent and attractive

II: Low-Carbon transport
Major shifts in the automotive industry

III: The Tourism Sector
Long term revenue growth well beyond eco-tourism in the MENA region
I: Investment Funds: Because Investors have still the most influence on corporate governance

(Survey by Prof. U. Steger, IMD)
Who are the future main drivers of value?

The Financial community
- Access to capital
- Cost of money
- SD/CSR issues

Measuring and benchmarking become key.

Employees
- Intellectual capital becomes a key competitive tool

Only 3% of companies believe they have enough talent to reach their objectives in five years (McKinsey).

Civil Society
- Societal acceptance and brand recognition become key (case Nike)

Next company in line for selection in case that a component is deleted from the index:
- Baloise-Holding
Implementing good Governance: Build on Scorecards and Analysis: Example: Inspire/DNV Scorecard

I: GOVERNANCE POLICY
1. Mission, Values and Ethics
2. Stakeholders Relations

II: STRUCTURE AND PROCESS
1. Appropriate Governance Structure and Processes
2. Independence of Board
3. Disclosure on Members of the Board and Key Executives and Their Remuneration

III: THE RIGHTS OF SHAREHOLDERS
1. Ensure Equitable Treatment of all Shareholders
2. Corporate Control to Function in an Efficient and Transparent Manner
3. Corporate Mechanisms for Assuring Minority Shareholders Influence

IV: DISCLOSURE AND TRANSPARENCY
1. Disclosure of the Financial and Operating Results of the Organisation
2. Disclosure on Non-financial Performance and material risks
3. Disclosure of Audit Results and Independence of Auditors
What should a scorecard achieve?

Facilitate the work of analysts and investors through a systematic and easy overview of all relevant issues of good governance

Enable companies to easily assess the reach and the quality of their own governance

Enable comparisons across industries and countries

Be readily available to all interested parties (Internet)

Allow investors to set minimum scores for governance as part of general investment decision making
II: “Low carbon transport” Major business opportunities for companies in the UAE

- Battery 2nd life applications (and related enabling technologies)
- Energy arbitrage
- Peak shaving apps
- Battery Recycling

First second and third priorities

- Battery Lifetime Degradation Models
- Risk Management for Battery Financers
- Battery Operating Maps (green, yellow, red)
- Battery Safety/ Manufacturing Risk evaluation
- Battery Usage Simulator Programs
- Battery Management System Design

EV Battery Production and Battery Models

Beyond Mobility usage

EV Battery in operation

Vehicle and Grid

- Smart grid connectivity
- Smart charging
- Energy arbitrage
- EV infrastructure
- TCO assessment and optimization
- Battery user history/ driving behavior
- Battery certificate (Healthcard)
- Battery Lifetime prediction
- EV Pre-owned car valuation
- Telematics for data mining apps
- Complete Systems integrator services
Case: Preparing for ”Low-carbon transport”

- **Special financing for the global roll-out of electric vehicles**
  - 100’000 electric vehicles require more than USD1 billion in battery financing
  - Secondary use of these batteries after (low) Residual Value take back offers new global opportunities for sustainable business:
    - Battery parks for solar back up / wind energy storage
    - Infrastructure of Electric Vehicle charging
A new type of infrastructure will be required to enable for EV usage. This may also provide new service opportunities for the companies that both understand the EV and the IG (Intelligent grid) technology and demands.

Charging batteries at the time when the price of energy is low in combination with allowing to feed energy back when the price is high will make the EV more than a mobility device.
III: Sustainable Tourism: Building a sustainable business in the MENA region

Tourism is
the world’s biggest industry – employing 300 million people and growing at 4% p-a
the most vulnerable if not handled sustainably.
the biggest voluntary transfer of funds

I am not talking about

ECO-TORISM (e.g. Al.Maha Desert resort) that is conservation-oriented, but

SUSTAINABLE TOURISM that is employment-oriented
The Tourism industry is changing

- from meeting only the travellers demand
- to understanding the destinations’ cultural and environmental impact concerns

Tourism generates revenues – but do we really know the real local cost of tourism?

The solution:

**PES : PAYMENT FOR ENVIRONMENTAL SERVICES**

A National park can be both

- a tourist attraction,
- a source of biological products sustainable farming -
- a place and source for Debt swaps and climate negotiations
Summary

MENA companies are more likely to succeed if they

• Understand better than others the relationship between good governance and sustainable growth, and the roles of different stakeholders

• translate governance from the macro to the micro level, and implement Good Governance practices efficiently

• build transparency and thus trust in order to make the enterprise competitive in accessing financing

Capture the opportunities of implementing CG as investor. and implement more sustainable business models – that will sustain a profitable enterprise
Thank you!

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For more information:

- Inspire Invest: willums@inspireinvest.com
- The Forum: www.gcgf.org
- Board Leadership Training: Sarah Cuttaree at kcuttaree@ifc.org
- Codes and Scorecards: Ralitza Germanova at RGermanova@ifc.org
- Media Program: Gene Spiro at Espiro@ifc.org
- Resolving CG Disputes: Marie-Laurence Guy at Mguy@ifc.org
Appendix

Additional material for discussion
RECENT GOVERNANCE DEVELOPMENTS

The EU is launching

- a European Systemic Risk Council (ESRC) which will monitor and assess potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole ("macro-prudential supervision"). To this end, the ESRC would provide an early warning of system-wide risks that may be building up and, where necessary, issue recommendations for action to deal with these risks.

– a European System of Financial Supervisors (ESFS) consisting of a robust network of national financial supervisors working in tandem with new European Supervisory Authorities to safeguard financial soundness at the level of individual financial firms and protect consumers of financial services ("micro-prudential supervision"). The new European network will combine nationally based supervision of firms with centralisation of specific tasks at the European level so as to foster harmonised rules.
in March 2010, the **Basel Committee** issued a Consultative Document, “Principles for Enhancing Corporate Governance,” It raises the need for:

1. Board oversight of senior management (setting performance standards and replacing senior management when necessary)
2. Establishment of a board risk committee responsible for advising the board on the bank’s overall current and future risk tolerance (or appetite) and strategy
3. Responsibility of the board of a parent company for adequate corporate governance across the group
4. An independent risk management function (including a chief risk officer) with sufficient authority and resources, and with access to the board;
5. Monitoring of risks, including the use of stress tests and approval processes for new products;
6. The role of the board in overseeing the financial institution’s compensation system
7. Responsibility of the board to understand the structure and the organization of the group
8. Responsibility of the board to understand the purpose, structure, and peculiar risks of any special-purpose or related structures, or in jurisdictions that could impede transparency or fail to meet international banking standards, and to mitigate the risks identified
The Broader Scorecard approach

A Balanced Scorecard is “a focused set of key financial and non-financial indicators.” These indicators include both leading and lagging measures.

The term “balanced” does not mean equivalence among the measures but rather an acknowledgement of other key performance metrics that are not financial.

The now classic Balanced Scorecard, as outlined by Robert Kaplan and David Norton, has four quadrants or perspectives to capture the actual situation of an enterprise, including:

• people and knowledge, internal matters, customer and financials.