Corporate Governance Codes and Standards Practice Group Meeting

May 17-18, 2012

Meeting summary

This is a summary of the meeting on the Development and Use of Corporate Governance Scorecards held on May 17-18, 2012 in Vienna. The purpose of the meeting was to advise the IFC Global Corporate Governance Forum (GCGF) on the development of a supplement to its Toolkit 2 on Developing Corporate Governance Codes of Best Practice. This new supplement will focus on corporate governance scorecards. In addition, the meeting considered issues of organization and the future work of the group. Twenty-four experts and practitioners attended and a series of presentations were made on different types of scoring projects undertaken in different countries.

This document summarizes the discussions in the order they took place. The main takeaway points of the session are then summarized in a box. For readers in a hurry, a quick understanding of the meeting is made possible by consulting these boxes. The remainder of the text provides further detail. The agenda is enclosed as Appendix 1 and the list of participants as Appendix 2. For those in need of more, the copies of the speeches and presentations can all be accessed by following the link below.1

Session I: Introductory session: Raising questions and defining the key issues

The meeting began with an open discussion designed to help understand what a scorecard is and what purpose it fulfills. The question of terminology was raised at the outset. To some the use of the word “scorecard” suggests “box ticking” and connotes a mechanical, superficial, compliance exercise. Other terms were suggested including: self-assessment, benchmark, dashboard, evaluations, or assessments. Another concern was whether it was possible to measure corporate governance at all since governance is can be considered an intangible value. In many cases the goal of encouraging good governance is described as creating a good governance “culture”.

A large number of additional questions were raised. Some questions were of a more general nature...

- What is the purpose of measurement and scoring?
- Who is the user and who benefits from the scoring?
- What is the correct terminology to describe evaluations?
- Can scoring be used to compare between companies and countries?
- Is this just a box ticking exercise?

...and others more specific:

- Should a scorecard be audited?

1 http://www.gcgf.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/global+corporate+governance+forum/events/first+corporate+governance+codes+and+standards+practice+group+meeting+on+development+and+uses+of+the+cg+scorecard+tool
• Should there be different approaches to scoring listed companies, banks, SMEs or SOEs?
• What is the appropriate benchmark?
• Should the scoring be publicly disclosed?
• Who fills scorecards in?
• Do you measure what companies are disclosing or what companies are actually doing?
• On what information is the scoring to be based, publicly available information or other sources?

It quickly became apparent that there is a large variety of evaluation techniques that have different purposes and serve different users. It was suggested that scorecards were not just numerical evaluations, but rather a source of information that can be used to provide structured guidance on how to implement best practice. Others suggested that scorecards were tools for capital providers, principally bankers and investors to assess corporate governance risk.

Summary:

There is a need to measure and evaluate in order to help us improve corporate governance. The nature of the evaluation depends upon the user and the user’s purpose. Depending upon whether the user is a regulator, an investor, a company, an advisor or other there is a range of applications at their disposal. The choice of application, the factors that are evaluated and the scoring process will differ based upon the user’s goals.

The supplement should help people decide what they want and then, having decided what they want, the process they want to go through. The process needs to reflect local circumstances. It was concluded that the group needs to keep an open mind to different approaches. At the same time, there is a need to establish common ground among them. One also needs to avoid defining the task too broadly or too theoretically. In order to avoid doing so, the supplement should provide a menu of concrete alternatives illustrated by examples.

Session II: The rationale for developing scorecards

The fundamental problem for many of those wishing to encourage better governance practice is that codes exist but are not being implemented. An example was cited of a code that was passed in an IFC client country in 2007. The code was endorsed by the stock exchange, and publicized on the web. Companies welcomed its adoption but, ultimately, nothing really happened. The hope is that scorings can be used as a tool to improve code penetration. Evaluations and scorecards are then a first step towards action, where better governance practices are the ultimate goal.

At the same time, there are different users with different scoring approaches. While broadly supportive of the same goal, users have slightly different outcomes in mind. For example, regulators are typically concerned with enforcement and measuring compliance with regulation. Private bodies such as chambers of commerce and NGOs often want to publicize the benefits of good governance and educate businesses. Ratings services want to inform their investor clients on governance risks. Companies themselves may be interested in good governance as a way to improve their performance and enhance their reputation with shareholders and other stakeholders.
In practice, different users have come up with a variety of evaluation approaches to help achieve their goals. So, as in corporate governance, the old bromide “one-size-doesn’t fit all” seems to apply. What all users do however have in common is that they want to evaluate the governance of an enterprise, and that they need a concise insight into a complex issue that has difficult to define and intangible aspects.

The principal users of scoring that were identified were:²

1. The company:
   • Company executives
   • The board
2. Regulatory and/or self-regulatory bodies:
   • Exchange regulators
   • Banking regulators
   • Stock exchanges
3. The markets:
   • Ratings agencies or governance scoring providers
   • Investors
   • Equities analysts
4. Civil society and other stakeholders:
   • Institutes of Directors, chambers of commerce, NGOs
   • Media
   • Employees
5. Service providers:
   • Bank credit analysts
   • IFC staff/investment officers
   • Advisory firms (governance consultants working for companies)

Among these, the group focused principally on the viewpoints of the first three: 1) companies; 2) regulators, and 3) the investors. From their perspective, evaluations are tools to encourage implementation of better governance and raise the standard of governance.

A number of additional issues were raised:

- **Codes versus regulation:** Governance codes are not intended to substitute for regulation. In principle, they are standards of best practice that are usually voluntary and subject to mandatory “comply or explain” disclosure. However, many countries use codes to encourage enterprises to comply with regulation and meet minimum standards of governance as required by law. In fact, many codes repeat important elements of law and regulation. In such cases, scorings can be regulatory compliance exercises. Important questions arise including: 1) whether enforcement of traditional legal requirements is sufficient to achieve a baseline minimum of governance; 2) whether scorings are being used because regulators lack sufficient enforcement capacity; 3) what are the implications for

² These were some of the users identified during the first session. During a later session, a matrix was presented describing a fuller set of users and their interests in scorings. This matrix has been appended: Appendix 3.
... scorings when law and best practice codes substantially overlap; and 4) what happens if local legislation is too weak to serve as a benchmark? It should be noted that basic compliance with the law—often taken for granted in developed markets—is often the exception rather than the rule in emerging or frontier markets.

This lead to a discussion of what scorecards are not. It was proposed that scorecards are not intended to be substitutes for mandatory disclosure. Nor are they an alternative to compliance statements. Here there was some disagreement. Some did feel that scorecards can guide a company on how to report on legal compliance. Another question was whether surveys are to be considered scorecards. The view amongst some was that they are not, presumably because surveys do not aim at an interaction with the company to improve its governance practices. The interaction with the company may be a criterion for focusing and defining the scope of the supplement.

- **Transparency and disclosure:** The degree to which scorecard results are made public as well as the role of the media were discussed. Companies are typically cautious regarding disclosure. Scorings that companies know will find their way into the public domain or that could cast a negative light have a strong tendency to be whitewashed. A number of participants felt that self-scorings (destined for public consumption) have no or limited value. Self-evaluations may be more honest and effective when held confidential.

With respect to the media, it was felt that media coverage carries the danger of oversimplification. Not all users will decide to provide information to the media. A board-driven self-evaluation will probably not. On the other hand, NGOs or IODs or chambers of commerce may have as an objective to draw public attention to the issue of corporate governance (not to mention the need for them to demonstrate that they are providing a service to their stakeholders). Irrespective of the user, the use of the media needs to be considered. If public disclosure is part of the plan, a suitable strategy should be developed.

- **Form over substance.** The objectivity of scorings was discussed. There is an understandable desire to make scorings as factual, objective and measurable as possible. However, excessive attention to measurable factors may lead to placing form over substance. There was some debate around this issue. Certainly, the presence of an audit committee is measurable and could be considered a positive factor. However, assessing how well it functions in practice, how well the audit committee members understand their role, their technical skills, and their ability to arrive at independent decisions and to challenge management are all difficult to measure. It is important to acknowledge in the supplement that scorings require judgment and that they describe something that is partly intangible. Acknowledging that scorings require judgment does not take away from their utility as a tool to identify problems, generate discussion and remedy governance weaknesses.
Summary:

The first step in any scoring project is to be crystal clear regarding the objectives. The project, the process, the techniques and the look of the scorecard will all depend upon a successful definition of the goal. Two major goals that were identified are to: 1) measure compliance, and 2) improve corporate governance at the company level. The first is typically done through external evaluations while the second is done principally internally possibly with the assistance of external advisors. Internal self-assessments may yield more honest assessments. Information that is shared by the company with the outside world or is provided to regulators is often subject to oversimplification or “spin” and may require verification. The role of public disclosure and the effect that such disclosure can have on scorings needs to be carefully considered. Codes and scorecards should not be used to patch up weak regulation or poor enforcement. But, a scorecard project can serve to reveal where legal and institutional reform is required. Finally, corporate governance has strong subjective elements. The subjective nature of scorings needs to be acknowledged; it does not diminish the value of evaluations.

Session III: Ownership models and types of Scorecards

The session began with the conclusion from prior sessions that there is no single answer, but that there is a variety of choices. Given this opening, there was a wide-ranging discussion of users, tools and challenges. The main issues that were touched upon were:

- **Voluntary assessments**: Some participants reported that voluntary assessments get few volunteers. In particular it is not easy to convince family business of the merits of good governance or to convince them to evaluate themselves. Much the same can be said of listed companies. Corporate governance is not part of the thinking of many executives and the corporate culture may be antagonistic to concepts of accountability and transparency. It is particularly hard to convince small and poorly performing firms to engage in assessments. Large companies on the other hand are much more open, possibly because of the greater availability of human resources with which to conduct the assessments.

- **The role of regulation**: It was noted that highly regulated firms may do better on governance assessments. This suggests that regulation matters, and that in some cases more attention needs to be paid to enforcement. Without doubt, proper legal enforcement is an important underlying problem in a number of countries. The reason may be lack of regulatory capacity or an absence of enforcement tools. In addition, regulators may be reticent to either apply the law or strengthen the law for fear of causing delisting’s. It was noted that outside assessments of governance practices can be much more effective if done with the backing of the regulator.

- **Sectoral adaptations**: Just as codes often differ depending upon the sector and the size of the firm, scorings may differ too. The main types of firms for which there are different codes and which would logically require different scorecards are: 1) SMEs and/or family business; 2) banks; 3) listed companies; and 4) SOEs. Each may react somewhat differently to scoring efforts. SMEs and family businesses are known to be difficult to convince. Banking is a heavily regulated sector that tends to be more used to supervision. Listed companies have a
direct interest in good governance but, like SMEs, may guard their privacy and be reticent to act in the absence of a direct and compelling interest. SOEs are often interested in better governance practices; however, their interest depends very much on the attitude of the state as an owner.

- **The IFC Progression Matrix**: The IFC has an assessment tool referred to as a progression matrix. The matrix helps assess a company’s governance on a number of criteria and assesses performance on different levels. The progression matrices are used principally by IFC investment officer though they could also function as a compact scoring system. What differentiates the IFC matrix from scorecards is that is not attached to a standard and is thus not locally adapted. An important feature is that the matrix comes with additional useful tools including: written definitions of independence; a report generator; a list of documents that are needed for good governance, etc. There are, thus, tools built around the progression matrix that make it useful for the inexperienced user.

**Summary:**

The session began to explore incentives for participating in scorings. A purely voluntary approach provides few incentives for companies. The support of regulators for scoring and governance reform may be crucial to success. Different economic sectors such as listed companies, SMEs, SOEs, and banks will likely have different motivations. Thus, organizers of scorings need to consider what motivates scorings, the incentives for participating and potential economic outcomes. Finally, as demonstrated by IFC’s progression matrix, a scorecard need not be just a scorecard; it can be a package of services and supplementary information that is useful to the company.

**Session IV: Uses of Scorecards: Private standards**

The session covered scorecards used by private institutions such as listed companies, banks, investors and NGOs. Each has its own motivations for scoring and uses its own approach.

- **Company users**: The incentives for scoring were described at a Serbian listed company where the principal purpose was to improve reputation and relations with shareholders. Prior to the scoring initiative, the board had focused its efforts on generating profits and dividends but not on corporate governance. After conducting its scoring, the company increased its transparency and improved its shareholder communications. It is now the only company on the Belgrade Stock Exchange that publishes a dividend policy. Improvements in governance were also a reason for including the company in a higher listing tier.

  The scoring project put a process into motion, a sort of virtuous circle. The company is now developing its own code of governance and will focus on its board of directors in future. The project was guided and supported by IFC. It was suggested that the supplement should incorporate such corporate success stories and that it is important to convince companies of the commercial benefits of scoring and better governance.

- **Using corporate governance to assess credit risk**: There is limited information on how banks use corporate governance data in their credit risk assessment process even if there are
examples of client evaluation questionnaires and assessments in both emerging and
developed markets. It appears that governance issues have long been included in traditional
credit analysis. Traditional credit techniques may require updating in light of recent
developments in corporate governance.

On a technical level, checklists for evaluating client governance may be difficult to develop.
It is uncertain what factors are linked to credit risk, which present the greatest risk (i.e. what
weighting they deserve) and how to translate governance factors into a credit discount.
Other challenges are the heterogeneity of companies and the degree to which assessment
tools can be flexible, versus the need to avoid undue discretion. In the end, information is
tantalizingly scant and further research on bank use of governance as an assessment tool
would be useful.

• **Ratings and the investors:** Commercial ratings services do governance assessments for their
clients. Early ratings services assessed the governance of listed companies to guide investor
voting or help develop an engagement strategy. More recently, corporate governance has
becomes part of the investment decision in both bonds and equities.

Governance ratings services appear to be most in demand in emerging markets where
foreign portfolio investors may not have easy access to information. Such services are of
particular value for investors going into a market for the first time. One of the features of
ratings services is that the scoring is typically based upon a proprietary benchmark that is
constructed to correlate with risk and/or performance. Such benchmarks may be closely
guarded secrets since they represent the intellectual capital of the ratings firm. Another is
that scorings are a paid service for investors. The results are proprietary and are not
generally made public, and may not even be made available to the company. Finally, ratings
usually rely fully on publicly available information and do not consult directly with executives
or boards. Such direct engagement is not considered cost effective.

• **NGOs, awards and membership services:** NGOs do not have money to invest and have no
regulatory powers and must thus use persuasion and be attuned to incentives. An example
was shared of Hawkamah a regional association that used scorings as the basis of a
corporate governance award. Once again the context was encouraging better compliance
with corporate governance codes and encouraging companies to go beyond base line
legislation. The initial scoring was a guided self-evaluation that resulted in a confidential
governance report for the company.

Though all companies were scored, not all perceived a benefit. So, it was decided to engage
investors to create more incentives. Big institutional investors, sovereign wealth funds,
private equity houses, and assets managers were approached. Scorings were also used to
inform regulators. Thus key stakeholders were engaged to put punch into the analysis.
Another factor that distinguishes this program is that it makes the issue of corporate
governance very visible and public. Public disclosure of the results (even if not in detail and
only in the form of winners) was an integral part of the project strategy.
Summary:

The session examined a variety of users and scoring initiatives in detail. All use some form of benchmark (or standard) to evaluate governance performance. But, there are differences. The benchmarks may be a national or regional code or proprietary. The scoring may be used purely for internal purposes, or for making credit and investment decisions, or for generating public awareness. Some initiatives embrace public disclosure. Others treat the scoring as confidential. Which approach to use depends upon the context and the objectives.

Private initiatives justify scoring by pointing to the economic and reputational impact of good governance. Convincing companies to engage is more likely to be successful when there is pressure from stakeholders, in particular shareholders, the equities markets, creditors and regulators. The public and media can also be factors.

Session V: Uses of Scorecards: Public standards

The tour de table of users continued. The focus was on institutions whose public interest goals are predominant (including chambers of commerce and stock exchanges, which are usually private bodies).³ Stock exchanges and regulators both have some powers to force compliance with governance standards in the public interest.

- **Stock exchanges:** A report from the field in Bosnia and Herzegovina showed how strikingly difficult it can be to implement governance codes, regulation and scorecards. Despite legal requirements for companies to adopt governance codes, few legal or economic incentives exist. Companies are not interested in raising capital; only one small IPO was conducted in the past three years. Some listed companies would prefer to delist if confronted with an increase in governance standards. The interest in scorecards is limited even when there are awards and recognition for best practice. This has forced the Banja Luka stock exchange to be proactive. In order to complete scorecards, stock exchange officials visit companies to conduct interviews.

   The scorings are accompanied by a number of educational and awareness building activities. 20 seminars were conducted on issues including: risk governance; control; audit; disclosure; and developing annual reports. Presentations are made, articles are written and information is put up on web pages and shared with the media. Scorings are thus accompanied by a number of related activities designed to demystify and make the scoring process more effective. It may be worth considering whether how the supplement could make reference to supplementary materials that can make scorecards more effective.

   The relation between the scorecard and law is interesting. The scorecard is based upon the local regulator’s comply or explain code. Yet it is, in fact, a mix of legal and regulatory measures combined with aspects of best practice. This raises questions regarding whether score cards are well suited for measuring compliance with legal standards and/or listing requirements or whether regulators and exchanges should have other tools at their disposal for the enforcement of hard law.

³ NGOs such as Hawkamah might ostensibly have been included in this group.
• **Regulators:** The role of regulators in conducting scorings and assessments in developed markets was discussed. Regulators are responsible for ensuring that law is followed. But their responsibilities for comply or explain codes are more limited. These responsibilities can be summarized as monitoring compliance with the code in order to: 1) assess its effectiveness; and 2) ensure that companies disclose the information that is required. In some countries these are the responsibility of stock exchanges not regulators.

Generally, the data that is collected by regulators is only made public in aggregate form in an annual monitoring report. Regulators are reticent to disclose company-specific information because they do not wish to give an implied guarantee or a false air of objectivity. In some countries regulators may take action to enforce greater disclosure. Generally the goal is to let the markets act, and to create a market place for information and the proper context for “disclosure-based regulation”. This is clearly not possible in thin markets with few players and few information users where basic law is either not in place or not observed.

In developed markets, codes are truly considered voluntary and thus do not, strictly speaking, require compliance. Developed markets may thus accept that alternative governance arrangements are actually a better course of action. What is mandatory, however, is an explanation. In a frontier or developing market comply or explain disclosure may put companies in a position of explaining “why I am breaking the law”.

Regulators may have an additional role in forcing companies to conduct self-evaluations. Self-evaluations are increasingly recognized as best practice and may be required by regulators in some countries. However, before requiring self-evaluations it is critical to establish that the concept is beneficial. It was also noted that dysfunctional boards cannot be expected to assess themselves properly. The quality of reviews can be facilitated by external advisors. Even so, some advisors will be more or less qualified to provide good assessments and advice. It is possible that the supplement should provide tools that would be useful to advisors.

• **Chambers of commerce:** The experience of Confecámaras, a network of chambers of commerce, describes scoring to improve governance in SMEs. From the outset the goal was to change corporate culture and not simply to apply a check list. Framed in this way, the project focused not just on the scorecard but on the factors and incentives that help change practice. On-line tools were provided for companies and 60 consultants were trained to assist companies and provide training. As an incentive, the chamber paid for 50% of subsequent implementation costs for the first 100 companies in the program.

It was noted that, as in other countries, legal compliance is not always the norm. In Colombia the local code reproduces to 70% legal requirements. Thus, scoring has elements of a compliance check rather than a benchmarking exercise against best practice. Nevertheless, chambers of commerce have companies as clients; they tend to take a collaborative approach to scoring and do not find it in their interest to enforce or to “shame and blame”. Chambers are much more reliant on encouragement and incentives. Key in getting company buy-in is to make corporate governance and scorings a simple and friendly concept.
Costs came up at various times during the meeting. Evaluations in some Asian countries cost as little as USD 300/company. Evaluations in Columbia range from USD 600-6,000 with some consultants charging up to USD 40,000. Where consultants are used by chambers, there is a reputational risk associated with poor service delivery. In response, Confecámaras accredits consultants.

Summary:

Public institutions (regulators and exchanges) typically have legal powers to enforce. (Private institutions have the power of money.) However, in many markets public enforcement powers are weak. Sometimes scorecards are used by regulators and exchanges as tools to encourage compliance with basic law in emerging markets. Whether score cards are well suited for measuring and encouraging legal compliance is questionable. Stock exchanges and regulators may need to reexamine their tools for enforcing basic law.

An area that may merit further consideration is making self-evaluations mandatory. However, it is likely that companies that already find it difficult to draft their own governance codes will be even more challenged by self-evaluations. Regulators and stock exchanges in emerging markets may need to act as educators and promoters of good governance more than in developed markets where familiarity with governance practices and a certain level of expertise are a given. Similarly, scorecard projects may need to be accompanied by training and other tools to make them succeed.

Session VI: Developing corporate governance scorecards

The purpose of the session was to provide insight into the process of developing scorecards.

- **Synthesis of IFC experience:** The IFC has been involved in developing more than 15 scorecards in different regions. An examination of these different efforts shows that there are common threads. The process of scorecard development can be summarized as:
  1. Define the benchmark
  2. Involve stakeholders
  3. Develop the tool
  4. Discuss draft with stakeholders
  5. Conduct a peer review
  6. Launch and promote
  7. Train local partners
  8. Support companies & institutions in applying
  9. New uses of Scorecards

  It is of fundamental importance to define and agree on the purpose of a scoring project and the desired outcomes at the outset before any additional steps are taken.

- **Certification and reluctant stakeholders in MENA:** There is a striking number of governance codes in the MENA region. Twenty-seven codes have been developed with the assistance of the IFC for listed companies, SMEs/family-owned enterprises, SOEs, banks and insurance companies. They range from voluntary to comply or explain to fully mandatory codes. A
significant number of countries have multiple codes. The number of codes suggests that there is considerable need for implementation and opportunities to improve code penetration.

One way to improve implementation has been to make voluntary codes mandatory. Another has been through the use of scorecards. The example of Jordan illustrates potential challenges and roadblocks. The Jordanian scorecard effort was ultimately held up by the securities commission and by a group that was tasked with ensuring that the scorecard did not contradict law and regulation. Both should, in principle, have been big supporters. The example illustrates the need to predict where problems might arise and generate commitment among stakeholders.

An interesting technical feature of the Jordanian scorecard is that it requires certification by the audit committee of the board. This certification is akin to an auditor’s opinion. It provides an assurance that the governance of the enterprise is in order. Such a formal certification approach contrasts with informal approaches that aim at generating discussion within the company in the hopes of persuading a change in culture. Certification may create incentives to report seriously and honestly, but it may also create disincentives. Executives or board members who certify compliance with law and regulation may fear legal implications or repercussions with regulators.

- **Big challenges in Nigeria**: The purpose of IFC’s work in Nigeria is to support regulators in their monitoring of corporate governance practices. A number of practical challenges serve to illustrate the difficulties in implementing better governance and scorings in particular. These include: a lack of regulatory capacity; weakness in the underlying legal and regulatory framework; and weak enforcement mechanisms. Challenges coming from the companies are: a focus on compliance versus real improvements in governance; and ingrained resistance to change.

A number of tough technical issues were described. The main one is the choice and the quality of the benchmark. The code of the securities commission is the reference code; however, there are also different sectorial codes, some of which are incompatible. The quality of underlying legislation is also a concern especially since existing regulations conflict. There are also conflicts between voluntary and mandatory provisions of law and codes, with some important governance provisions being without force of law or enabling structures.

At present the IFC scorecard tries to rationalize these differences and fill in the gaps by going beyond the existing code. One of the key questions raised by the Nigerian experience is what to do when the underlying benchmark and law are weak or even conflicting. Others are: do the underlying legislation and enforcement structures need to be revised first? Does the benchmark need to be revised first? If not, what does this mean regarding the credibility and effectiveness of the scorecard, and/or regulation?

Group members had different perspectives. On the one hand, it appears that a precondition for any scoring is a code or benchmark of acceptable quality. On the other hand, there is also the opinion that even if codes aren’t perfect, that there is value in getting a process started.
The issue of codification versus regulation arose. Some countries have far more legalistic cultures in which anything that is not law is ignored by businesses. It bears mention that codes and comply or explain enforcement originate from highly developed markets and regulatory cultures where markets and disclosure are expected to impact and check corporate behavior. Such forces cannot be expected to work in countries with different legal traditions and where prerequisites for disclosure-based regulation are weak. Enforcement is always a mix of hard and soft tools (scorecards being soft tools). The effectiveness of soft tools may be doubtful when some of the hard tools are lacking.

- **IFC support and regional approaches:**

The five pillars of IFC support were summarized as:

1. Standards on which scorecards may be based
2. Structures of scorecards
3. Development process for scorecards
4. People to engage in the process (peer-reviewers, stakeholders etc.)
5. Application of the scorecard

IFC support is reported to be critical in projects because the IFC represents the face of international practice. International backing and expertise in international standards help to remove obstacles. Local ownership is, of course, fundamental but international backing is important to provide credibility.

Regional approaches were discussed. The main benefits of regional approaches are economies of scale (better bang for the buck) and that they allow comparison between countries. By definition, regional approaches do not employ national benchmarks. In order for them to work, they need a regional one. What the correct benchmark is and what the appropriate balance is between the local reality and the international benchmark is an issue for consideration.

A number of regional approaches exist including: IDEA.net and the Asian Capital Markets Board in Asia; the Baltic Institute of Corporate Governance in the Baltic republics; Hawkamah; and a regional standard in South America. Regional initiatives can create positive competition and allow countries to learn from each other. On the other hand, international comparisons can raise national sensitivities. Positive peer pressure was mentioned in the mid-east and the Baltics. It was concluded that one should (carefully) take advantage of regional dynamics if there are regional integration initiatives under way.

**Summary:**

The session helped focus the group by providing a somewhat narrower look at scorecards from the perspective of IFC practice. In the context of IFC’s work, scorecards are used to improve code penetration and to realize returns on the considerable investment IFC has made into code development.
Since scorecards are framed as code implementation projects, scorings will likely use the local governance code as the benchmark. Nevertheless, there are challenges to this approach when the local benchmark is not up to scratch. There is then considerable incentive to go beyond it. In addition, a weak benchmark may also indicate more fundamental problems that require attention. A big issue is what to do when the rest of the infrastructure that is supposed to support good governance (law, regulation and enforcement capacity) is missing.

A number of technical issues were discussed. It was concluded that one should: apply scorings consistently between companies to allow comparison; ensure user-friendly scorecards and processes; get the concepts and language right; properly address the decision between local and international standards; understand who is best suited to complete scorecards; and consider issues of verification and accreditation. Regional initiatives may be useful if there is a process of regional integration.

Session VII: Development of the supplement

The group was divided into subgroups to consider three key questions and provide specific suggestions. The breakout groups were to provide feedback on: 1) the structure of the supplement; 2) the appropriate terminology and the definition of “scorecard”; and 3) the types of scorecards and users.

- **Group 1: Structure of the supplement:**

  There are differing views on how to structure the supplement. Nevertheless, a basic structure for the supplement was proposed for the purpose of discussion. The following structure responds to the key questions that a reader/user would need to answer:

  1. **Purpose:** What is a scorecard, what are the expected outcomes, do they work in practice?
  2. **Users:** Who are the different users, what are their different goals, and what kinds of approaches do they employ?
  3. **Benchmarks:** What is the appropriate benchmark, national, international? What is the role of regulation? What to do when benchmarks are not up to snuff? What types of sectorial scorings (SME, SOE, bank, etc. listed company) exist?
  4. **Procedures:** How does one organize the scoring process?
  5. **Examples:** What kinds of models or examples exist, and what are real world challenges?

  The supplement should devote most of its attention to telling people how to do it. It should properly set the context but not be overly academic. Examples are needed throughout as well as challenges with practical advice on what to do. A decision tree may help different users decide on what approach is best for them. The supplement should include examples of sample scorings and the process of implementation.

- **Group 2: Terminology and definition:**

  Alternative terminology and definitions were discussed. There is discomfort with various alternatives including: dashboards; governance evaluations; governance analyses;
scorecards; benchmarks; measurement tools; ratings; rankings; scores; and so on. Whatever term is chosen, it should avoid connotations of box ticking or overly mechanistic scoring. The ultimate choice of terms was left open, but two alternative definitions were proposed:

*Alternative 1:* “Corporate governance assessment tools including scorecards are tools to analyze and measure a company’s corporate governance practices with a view to help: 1) companies to improve their practices; 2) investors to make informed decisions; and 3) regulators to assess observance of codes of best practices.”

*Alternative 2:* “These tools may have multiple purposes. Corporate governance assessment tools including corporate governance scorecards are tools to analyze and measure a company’s corporate governance practices with a view to identify corporate governance risk and help companies improve their practices.

Both agree that these are “tools” to “assess” and “measure” corporate governance. Both specify that these tools include “scorecards”. Both concur that there are multiple users and both agree that the ultimate purpose is to improve practices. It was pointed out that both of these definitions are wordy. They should be refined and made more user-friendly.

- **Group 3: Uses and users of scorecards:**

The final group provided a clear view of the uses and users of scorecards. A detailed matrix is included as an annex. A simplified version follows:

**Users (in rough order from public good to private good):**

1. Regulators
2. Stock exchanges
3. Business associations
4. Academia
5. Media
6. Institutes of directors
7. International Financial Institutions
8. Consulting firms
9. Investors
10. Companies

**Uses:**

1. Awareness raising
2. Enhance efficacy of corporate governance framework
3. Provide basis for reporting (to regulators and stock exchanges)
4. Incentives in form of awards tools for recognition
5. Surveys for exchanges and academia
6. External evaluation references (board evaluations)
7. Training guidance for board or selected individuals
8. Self-assessment
Next steps

IFC requested guidance on: 1) whether this group should be constituted more formally as an experts group on codes and standards; 2) the level of involvement of members in developing the supplement; 3) whether the group should be open or closed; and 4) how the group should communicate.

The feedback suggested that the focus of the group should be on peer review and the contribution of examples, and to review drafts of the supplement. It was agreed to make the group more permanent. In the process of doing so a better definition of goals and the role of the group is needed. Terms of reference and a structured work plane should be developed for discussion in the fall.

Summary:

Basic guidance was provided on the development of the supplement. It was agreed to make the group more permanent. Further work needs to be done to define the expectations and its role. More specific terms of reference and a structured work plan should be presented and discussed in the fall.
Appendix 1

CORPORATE GOVERNANCE STANDARDS AND CODES PRACTICE GROUP

DEVELOPMENT AND USES OF CORPORATE GOVERNANCE SCORECARDS

May 17-18, 2012
World Bank Office
Praterstrasse 31 - 19th Floor
1020 Vienna, Austria

| Agenda |
**Background**

Corporate governance scorecards are tools that can help assess companies' governance practices based on a set of agreed best practice standards. They can be used for reporting purposes, as a basis for corporate governance improvement plans, and also to rate companies. Together with IFC country based corporate governance projects, the Global Corporate Governance Forum (the Forum) has to-date supported the development of scorecards in Croatia, Bulgaria, Macedonia, Bosnia and Herzegovina, Montenegro, Azerbaijan, Georgia, Serbia, Indonesia, Vietnam, and the Philippines.

In light of increasing demand and to support the improvement of corporate governance framework and regulatory environment in which companies operate, the Forum will be updating its toolkit on *Developing Corporate Governance Codes of Best Practices* and preparing a supplement on *Developing and Implementing Corporate Governance Scorecards*.

The objective of this meeting is to inform the structure, content, and roll-out of this new supplement and gather lessons learned from different countries and regions on developing and implementing scorecards including on:

- Rationale for developing CG scorecards;
- Ownership models and different types of CG scorecards;
- Uses of CG scorecards;
- Development processes of CG scorecards; and
- Endorsement and monitoring of CG scorecards.

In addition participants will be invited to discuss their contribution to the development of this new knowledge product and the role of a *Corporate Governance Standards and Codes Practice Group* including international experts, regulators, clients, and IFC project managers involved in developing and/or using CG Codes and Scorecards.
# Corporate Governance Standards and Codes Practice Group

**Moderated by**

*Peter Montagnon, Senior Investment Advisor, UK Financial Reporting Council*

<table>
<thead>
<tr>
<th>May 17, 2012</th>
<th>08:30 – 09:00</th>
<th>Registration and Coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 09:45</td>
<td>Introduction</td>
<td>Meeting Objectives and Role of the CG Standards Practice Group</td>
</tr>
</tbody>
</table>
|              | Marie-Laurence Guy | • Introduction of participants  
|              |              | • Why are we here?  
|              |              | • Meeting Objectives  
|              |              | • Expected take-aways  
|              |              | • Working together moving forward |
| 09:45 – 10:45 | Rationale for developing CG Scorecards | Presentations:  
|              |              | • Rationale for developing CG scorecards – Christian Strenger  
|              |              | • Bulgarian experience in developing CG scorecard – prof. Bistra Boeva |
|              |              | *The session will be introduced by 10 minute (maximum) presentations followed by group discussion and exchange of experience among participants.* |
|              |              | Issues for discussion:  
|              |              | • What is a corporate governance scorecard?  
|              |              | • Why develop a corporate governance scorecard?  
|              |              | • What should a corporate governance scorecard achieve? |
| 10:45 – 11:15 | COFFEE BREAK | |
| 11:15 – 12:30 | Ownership models and types of CG Scorecards | Presentations:  
|              |              | • CG scorecards types and ownership models in East Asia – James Simanjutak and Anar Aliyev  
|              |              | • Review of CG scorecards in the Balkans – Kiril Nejkov  
|              |              | • Alternative tools: IFC CG Methodology and its use – Martin Steindl |
|              |              | *The session will be introduced by 10 minute (maximum) presentations followed by group discussion and exchange of experience among participants.* |
Issues for discussion:

- Different types of CG scorecards – what’s available and what’s missing?
- What model of CG scorecard to choose and why?
- Who should own the CG scorecard?

12:30 – 13:30  LUNCH

13:30 – 15:15  Uses of CG Scorecards: Private Standards

Panel discussion moderated by Patrick Zurstrassen

- The corporate perspective: CG scorecard to improve company’s CG practices - Galenika Fitofarmacija, Serbia - Slavica Pekovic
- The bank perspective: Supporting CG scorecard development in Colombia – Thierry Buchs
- The investors perspective: CG scorecards as rating instruments – John Jarrett
- The CG institute perspective: CG scorecards as a basis for CG awards and membership services – Nick Nadal

The session will be introduced by 10 minute (maximum) presentations followed by group discussion and exchange of experience among participants.

Issues for discussion:

- What are the most valuable uses of CG scorecards?
- Do CG scorecards need to be standardized?
- How much can CG scorecards be tailored to specific needs?

15:15 – 15:30  COFFEE BREAK

15:30 – 17:00  Uses of CG Scorecards: Public Standards

Panel discussion moderated by Richard Frederick

- The Stock Exchange perspective: CG scorecard for listing purposes - Banja Luka Stock Exchange, Bosnia and Herzegovina - Nebojsa Vukovic
- The regulator perspective: CG scorecard to monitor compliance - UK Financial Reporting Council - Chris Hodge
- The Chamber of Commerce perspective: CG scorecard to promote best practices – Francisco Prada

The session will be introduced by 10 minute (maximum) presentations followed by group discussion and exchange of experience among participants.

Issues for discussion:

- Who should endorse the scorecard?
- How to promote the scorecard?
- How to monitor the use of the scorecard?

17:00 – 17:15  Wrap up of Day 1

19
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:00 – 10:15</td>
<td><strong>Developing CG Scorecards: Adding value to the process</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Presentations:</strong></td>
</tr>
<tr>
<td></td>
<td>• Key steps in developing CG Scorecards – <em>Ralitza Germanova</em></td>
</tr>
<tr>
<td></td>
<td>• MENA experience – <em>Yehia El Husseiny</em></td>
</tr>
<tr>
<td></td>
<td>• Nigeria experience – <em>Isimkah Ibuakah</em></td>
</tr>
<tr>
<td></td>
<td>• IFC role in supporting the development of CG scorecards – <em>Oliver Orton</em></td>
</tr>
<tr>
<td></td>
<td><em>The session will be introduced by 10 minute (maximum) presentations followed by group discussion and exchange of experience among participants.</em></td>
</tr>
<tr>
<td></td>
<td><strong>Issues for discussion:</strong></td>
</tr>
<tr>
<td></td>
<td>• What to watch out for in developing CG scorecards: lessons learned?</td>
</tr>
<tr>
<td></td>
<td>• What is IFC role/offering in helping develop and implement CG scorecards?</td>
</tr>
<tr>
<td></td>
<td>• What should the “CG Scorecards supplement” achieve?</td>
</tr>
<tr>
<td>10:15 – 10:45</td>
<td><strong>COFFEE BREAK</strong></td>
</tr>
<tr>
<td>10:45 – 11:45</td>
<td><strong>Development of the CG Scorecards Supplement</strong></td>
</tr>
<tr>
<td></td>
<td><em>Ralitza Germanova</em></td>
</tr>
<tr>
<td></td>
<td><em>The participants will work in pre-assigned groups on different topics during the first part of the session followed by a group discussion on all the topics.</em></td>
</tr>
<tr>
<td></td>
<td>• Group 1: Structure of the supplement</td>
</tr>
<tr>
<td></td>
<td>• Group 2: Drafting and preparation (timeline, collecting best practice materials, peer reviewers)</td>
</tr>
<tr>
<td></td>
<td>• Group 3: Users of the supplement and roll-out</td>
</tr>
<tr>
<td>11:45 – 12:30</td>
<td><strong>CG Standards and Codes Practice Group: Next Steps</strong></td>
</tr>
<tr>
<td></td>
<td><em>Marie-Laurence Guy</em></td>
</tr>
<tr>
<td>12:30 – 12:45</td>
<td><strong>Summary of Discussions and Key Take-aways</strong></td>
</tr>
<tr>
<td></td>
<td><em>Peter Montagnon</em></td>
</tr>
<tr>
<td></td>
<td><em>Feedback and Evaluations</em></td>
</tr>
<tr>
<td>NAME</td>
<td>Title</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td>Christian Strenger</td>
<td>Director</td>
</tr>
<tr>
<td>Richard Frederick</td>
<td>Senior consultant</td>
</tr>
<tr>
<td>Peter Montagnon</td>
<td>Senior Investment Adviser</td>
</tr>
<tr>
<td>Bistra Boeva</td>
<td>Professor</td>
</tr>
<tr>
<td>Nick Nadal</td>
<td>Head</td>
</tr>
<tr>
<td>John Jarrett</td>
<td>CEO</td>
</tr>
<tr>
<td>James Simanjuntak</td>
<td>General Secretary of Management Board</td>
</tr>
<tr>
<td>Francisco Prada</td>
<td>Head of the Corporate Governance Division</td>
</tr>
<tr>
<td>Thierry Buchs</td>
<td>Head of the Economic Cooperation</td>
</tr>
<tr>
<td>Tamanna Talukder</td>
<td>Sr. Financial Sector Specialist</td>
</tr>
<tr>
<td>Slavica Peković</td>
<td>General Affairs Manager</td>
</tr>
<tr>
<td>Nebojsa Vukovic</td>
<td>Head of Listing, Education and PR Department</td>
</tr>
<tr>
<td>Chris Hodge</td>
<td>Corporate Governance Unit</td>
</tr>
<tr>
<td>Henri Fortin</td>
<td>Head</td>
</tr>
<tr>
<td>Kiril Nejkov</td>
<td>Operations Officer</td>
</tr>
<tr>
<td>Oliver Orton</td>
<td>Regional Project Manager</td>
</tr>
<tr>
<td>Yehia El Husseiny</td>
<td>Operations Officer</td>
</tr>
<tr>
<td>Isimkah Ibuakah</td>
<td>Operations Officer</td>
</tr>
<tr>
<td>Martin Steindl</td>
<td>Senior Corporate Governance Officer</td>
</tr>
<tr>
<td>Anar Aliyev</td>
<td>Operations Officer</td>
</tr>
<tr>
<td>Patrick Zurstrassen</td>
<td>Chairman</td>
</tr>
<tr>
<td>Marie-Laurence Guy</td>
<td>Senior Operations Officer</td>
</tr>
<tr>
<td>Ralitza Germanova</td>
<td>Project Coordinator</td>
</tr>
</tbody>
</table>
# Appendix 3

## Type of uses

<table>
<thead>
<tr>
<th>Uses</th>
<th>Users</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness Raising</td>
<td>- Regulators</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>- SEs</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td>- BMOs/IoDs</td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td>- Academia</td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td></td>
<td>- IFIs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Media</td>
<td></td>
</tr>
<tr>
<td>Informing on efficacy of CG Framework</td>
<td>- Regulators</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>- SEs</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td>- BMOs/IoDs</td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td></td>
<td>- IFIs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Institutional investors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Rating Agencies</td>
<td></td>
</tr>
<tr>
<td>Basis for reporting</td>
<td>- Regulators</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>- SEs</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td>Tools for recognition</td>
<td>- SEs</td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td>- BMOs/IoDs</td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td></td>
<td>- Media</td>
<td></td>
</tr>
<tr>
<td>Matrix for surveys/data series</td>
<td>- SEs</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>- Academia</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td>- BMOs/IoDs</td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td>- Rating agencies</td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td></td>
<td>- Consulting firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- IFIs</td>
<td></td>
</tr>
<tr>
<td>References for external evaluation</td>
<td>- Consultancy companies</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td>Training guidance</td>
<td>- SEs</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>- Academia</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td>- BMOs/IoDs</td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td>- Consultancy</td>
<td>- National codes (general / sectoral)</td>
</tr>
<tr>
<td></td>
<td>- Companies (internal training)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self – assessment</td>
<td>- Companies (SOEs, Listed, Banks, Non-bank</td>
<td>- National legal framework</td>
</tr>
<tr>
<td></td>
<td>financial institutions, FOBs, SMEs/LLCs,</td>
<td>- Listing requirements</td>
</tr>
<tr>
<td></td>
<td>insurance companies, pension funds</td>
<td>- International standards/best practices (OECD, IIA, COSO, BASEL, ISA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- National codes (general / sectoral)</td>
</tr>
</tbody>
</table>