SUMMER 2009

A PROGRESS REPORT

OUR MISSION:

Established in 1999, the Global Corporate Governance Forum is an IFC multi-donor trust fund facility located within IFC Advisory Services. Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crises, and provide incentives to corporations to invest and perform efficiently in a socially responsible manner.

The Forum sponsors regional and local initiatives that address the corporate governance weaknesses of middle- and low-income countries in the context of broader national or regional economic reform programs.

OUR FOCUS:

- Raising awareness, building consensus
- Disseminating best practices
- Sponsoring research
- Funding technical assistance and capacity-building

OUR DONORS:

- Canada
- France
- Luxembourg
- The Netherlands
- Norway
- Switzerland
- International Finance Corporation

OUR FOUNDERS:

- World Bank
- Organization for Economic Cooperation and Development

IFC International Finance Corporation World Bank Group

Global Corporate Governance Forum

The Forum helps support development of corporate governance codes of best practice in developing countries.

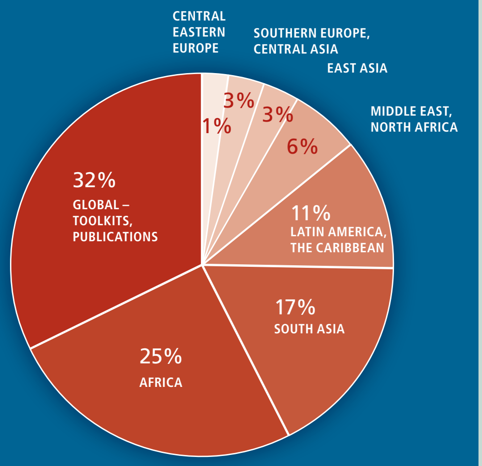
Global Corporate Governance Forum

Better Companies, Better Societies

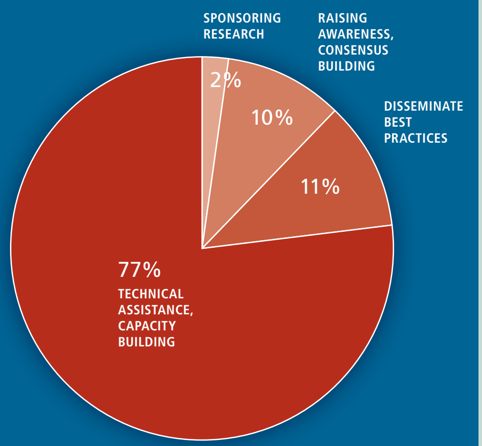
The Forum plays a central role in the IFC's corporate-wide response to the global financial crisis, focusing on strengthening corporate governance in financial institutions. The Forum's work builds on its existing programs to build capacity of institutes training board directors, to train journalists to more effectively report on corporate governance, and to provide leadership in policy responses to rebuild confidence and renew economic growth by advancing corporate governance reforms. ■ The Shenzhen Stock Exchange signs an agreement with the IFC and the Forum to initiate a comprehensive training program in corporate governance for the exchange's vast network of corporate communities. The signing occurs during a well-attended, successful board leadership training program on corporate governance, which the Shenzhen and Shanghai exchanges supported. ■ Private Sector Advisory Group member Mervyn King explains why boards need alternatives to the judiciary to prevent and resolve corporate governance disputes. The Forum is developing a toolkit on corporate governance dispute resolution for launch in late 2009. ■ John D. Sullivan, executive director of the Center for International Private Enterprise (CIPE), explains the value of the center's partnership with the Forum. ■ In partnership with the Thomson Reuters Foundation, the Forum holds five workshops in five countries, drawing journalists from Africa, the Middle East, South and Central Asia, and Southeast Europe. A toolkit for journalists about corporate governance progresses toward publication in 2010. ■ In partnership with the government in Azerbaijan and the U.S. Agency for International Development, the Forum and the IFC regional team organized a workshop in mid-January to initiate private-public dialogue on developing a new corporate governance code for the country. This event was followed by a two-day workshop on how to develop codes of best practice in Eurasia. Code drafting committee representatives from five countries participated. ■ Women's participation continues to be a strong component of the Forum's efforts. In the *Board Leadership Training Resources* rollout, 30 percent of participants and half of the master trainers are women. ■ Forum Steering Committee member Daniel Blume, an OECD principal administrator, outlines the Forum's contributions and challenges.

FINANCIAL SUMMARY

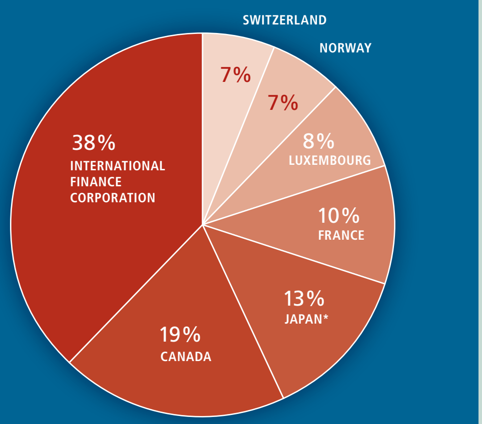
Funds Allocated by Region



Funds Allocated by Activity



Sources of Funds



*FUNDING SPECIFICALLY DIRECTED TO THE FORUM'S WORK IN INDIA

Forum Plays Key Role in IFC Response to Global Financial Crisis

The global financial crisis exposed significant weaknesses in corporate governance, most notably risk management within the financial services industry. The Forum is supporting the corporate governance component of the IFC's corporate-wide financial crisis response plan. This initiative aims to restore stability in the financial sector by mitigating the crisis's impact on the most vulnerable markets.

Spread over a three-year period through fiscal 2011, the Forum's financial crisis response will help institutes of corporate governance and directors' institutions build robust capacity for training financial institutions' directors.

The Forum's work will build on its existing training resources, the *Corporate Governance Board Leadership Training Resources*. This product provides comprehensive material and guidance on all key aspects of board leadership, with a particular emphasis on strategy formulation, financial controls, supervision and reporting, risk management, and corporate social responsibility.

The Forum has also implemented several direct responses to the crisis, such as providing support for the launch of corporate governance codes of best practice in the Middle East and North Africa (MENA) and Southeast Europe and Central Asia. These efforts include: promoting the development of sustainable institutes of directors (e.g., Mozambique and Panama); training the media, in cooperation with Thomson Reuters Foundation, on how to cover the financial crisis and report on corporate governance; and, issuing publications that examine the crisis's challenges from a private sector perspective (e.g., *Private Sector Opinion* Issue 11: "Crashes, Bailouts, Regulations" by Pratip Kar, former dean of finance and corporate governance at the Tata Management Training Center in Pune, India; and *(PSO)* Issue 12: "Where Were The Directors?" by PSAG member David Beatty, who is Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness at the Rotman School of Management University in Toronto and founding CEO of the Canadian Coalition for Good Governance).

"The effect of this crisis is slowing down the growth and economic sustainability of developing countries," said Forum Head Philip Armstrong. "The stability of financial markets in most emerging markets is at stake and many challenges lie ahead to restore investors' confidence. Wider adherence to corporate governance best practices is fundamental to an overall response aimed at restoring confidence in capital markets – mitigating the impact and providing the private sector with the capacity to deal with potential future crises."

KEY DELIVERABLES:

- Financial institution module for Board Leadership Training Resources, with emphasis on risk management decision making
- Partnerships with selected institutions to serve as "centers of excellence" for training of financial institution directors
- Customization of material and translation (where applicable)
- Training of trainers and mentoring using PSAG where appropriate
- Training of material number of financial institution non-executive directors

AHEAD

Regulators, experts on banks' governance, board directors, PSAG members, and others will gather in Paris to provide counsel to the Forum in identifying the challenges to good bank governance and defining training for directors of banking and financial institutions.

TURNER REVIEW: WHY THE GLOBAL FINANCIAL CRISIS HAPPENED

Issued by the U.K. Financial Services Authority, the report concluded the following:

- Characteristics of the new global financial system, combining with macroeconomic imbalances, helped create an unsustainable credit boom and asset price inflation.
- Those characteristics then played a crucial role in reinforcing the severity of the financial crisis and in transmitting financial system problems into real economy effects.
- The shock to the banking system has been so great that its impaired ability to extend credit to the real economy has played and is still playing a major role in exacerbating the economic downturn, which in turn undermines banking system strength in a self-reinforcing feedback loop.

The Turner Review: A Regulatory Response to the Global Banking Crisis.

March 2009

Available at www.fsa.gov.uk.

"At a moment when economies worldwide must focus on restoring trust, the Forum is indispensable as a resource for tools, advice, and expertise custom-fit for corporate governance conditions in emerging markets. No other body plays that role. If the Forum didn't exist, countries would have to invent something like it – but by spending more, duplicating, and getting outputs far less remarkable than those produced by the Forum's world class staff."

STEPHEN DAVIS
Senior Fellow
Millstein Center for Corporate Governance and Performance
Yale School of Management

Corporate Governance: A Core Element in Global Efforts To Restore Financial Stability, Promote Economic Growth

The consequences of policy responses by national governments to the financial crisis—ranging from multi-billion-dollar stimulus packages to a revamping of the international financial regulatory system—will largely determine the degree to which the world will worsen or stay on track in reducing poverty and attaining the UN Millennium Development Goal (MDG) targets.

A consensus is emerging that corporate governance must be central in the global response to the world's worst economic crisis in 80 years. Good corporate governance leads to well-run businesses – "Better Companies, Better Societies." In turn, this fosters productive economic relationships among suppliers, small-to-medium enterprises (SMEs), and investors that lead to job creation and sustainable private-sector development.

The emerging consensus around strengthening national and regional financial markets, accelerating trade, and boosting domestic demand implies not only a need to restore trust, confidence, and legitimacy in business transactions, but also local capacity to effectively implement reform initiatives.

Corporate governance standards and practices, therefore, are now more important than ever, with a commensurate need to build national capacity to effectively implement and enforce such standards. A key lesson from the global financial crisis reveals that corporate governance principles remain valid and legitimate, and that problems must be addressed at the level of institutions overseeing and enforcing such principles. Consequently, a sustainable business environment is premised on building effective national and local capacity to apply good corporate governance practices.

Research studies and empirical data across all industry sectors and company sizes demonstrate that it pays to promote corporate governance. A commitment to principles of well-defined shareholder rights, a rigorous control environment, higher levels of transparency and disclosure, and effective boards – all these components lead to better company performance and business sustainability over the long run. There is increasing recognition that corporate governance and stakeholder engagement are integral to any well-functioning economy. A March 2009 study by Governance Metrics International (GMI), for example, concluded that well-governed companies are faring better in the current economic downturn. Out of a sample of 4,200 companies rated by GMI, only 90 companies exhibited consistent high corporate governance standards over 12 quarterly rating cycles, and these 90 companies outperformed their market capitalization peers by 23 percent in terms of shareholder returns.

According to the IMF-World Bank *Global Monitoring Report 2009: A Development Emergency*, the global financial crisis has hit poor countries especially hard, posing serious threats to their hard-won gains in boosting economic growth and achieving progress toward the MDGs. "Recovery prospects depend on effective policies that restore confidence in the financial system and counter falling global demand," the report concludes.

Efforts to rebuild confidence will depend on the degree to which good corporate governance practices become the foundation of companies, including more effective risk-management frameworks.

This means that the informality of corporate governance arrangements in developing and emerging market countries, which sufficed under favorable economic conditions, is no longer viable. For the developing world, reform efforts must accompany the development of local institutional capacity for corporate governance, recognizing that this process may require intensive cooperation with implementing partners over many years.

The best corporate governance standards and principles remain only written aspirations if they are adopted without customization to each country's circumstances. Corporate governance reformers must take responsibility to adapt best practice standards through a wide consultative process that reflects all perspectives from the private

CONTINUED ON PAGE 4

Restoring Financial Stability, Promoting Economic Growth. CONTINUED

sector, government, and professional associations. Equal responsibility also lies with international partners to focus on sustainable capacity at the national and local levels. Technical assistance is not enough if there is no commitment to the long-term process of local capacity building.

Corporate governance is crucial to the survival of companies and business activity, especially in the least developed countries, where maintaining economic growth is the difference between higher poverty and protecting women and children, who stand to bear the worst impact of the financial crisis.

The stakes are too high to neglect or marginalize this central objective. The World Bank estimates that for every one percentage point decline in economic growth, 20-million people fall into poverty. According to this figure, 53-million more people have been trapped by poverty than would have happened without the economic downturn seen so far.

"The financial crisis can be, to an important extent, attributed to failures and weaknesses in corporate governance arrangements. When they were put to the test, corporate governance routines did not serve their purpose to safeguard against excessive risk taking...."

THE CORPORATE GOVERNANCE LESSONS FROM THE FINANCIAL CRISIS
OECD, February 2009

PSAG LEADS BOARD SIMULATION TO DEMONSTRATE DIRECTORS' LEADERSHIP OPPORTUNITIES AMID THE FINANCIAL CRISIS

The ability of boards to handle crises is even more critical as the global economy contracts, financial institutions and markets undergo unprecedented restructuring, and the risk of corporate bankruptcies worldwide remains high.

What policies, procedures, and director strengths should a board have to make the best decisions for its shareholders to ensure long-term value creation? In particular, how should boards respond to whistleblower allegations, which went ignored by some boards to the eventual implosion of many financial institutions?

PSAG members addressed that question, supported by a film, *Risking It All*, produced by PricewaterhouseCoopers (PWC). The film explores a hypothetical company struggling with responses to a whistleblower's claims that some of its subsidiary's contracts were won through bribes to government officials and the subsidiary's booking of phony sales revenues.

The film triggered a discussion about: the kinds of investigations that should be pursued to verify a whistleblower's allegations; the board's decision-making process, including interpersonal dynamics and competing agendas; and, the management of conflicts among board members, outside counsel, and the auditor.

Philip Armstrong, the Forum's head, led the discussion with the panelists PSAG Chairman Peter Dey, CEO of Paradigm Capital, PSAG Deputy Chairman Christian Strenger of DWS Investment GmbH, and two PWC representatives (Joe Atkinson and Duncan Wiggetts).

The Forum is in discussion with PWC to use the film as a precursor to training board trainers and journalists. The film would set the framework for the practical issues and dilemmas that directors face. Use of the film in Nigeria and China by the Forum was very successful.

PANELISTS' OBSERVATIONS

"If you're ever faced with the need for an investigation, make it completely independent."

PETER DEY

"Better boards are a result of good training and the appropriate tone at the top."

CHRISTIAN STRENGER

"We have to be careful that we don't put so much risk in the path of directors that they no longer want to serve on the board. Expectations are very high for directors to deliver now and 'change' things; we're likely to see some negative consequences in terms of the pool of qualified individuals interested in sitting on a board."

DUNCAN WIGGETTS

PSAG Perspective: Ensuring Accountability by Restoring Effectiveness of Checks and Balances

For many years, PSAG member David Pitt-Watson has been an advisor to the UK government on corporate governance. He was co-founder and chair of Hermes shareholder activist activities, which grew to be the largest of any fund manager worldwide. He is the author of numerous articles and books about corporate governance. His latest publication, written with Stephen Davis and Jon Lukomnik, examines how changes in ownership open up the possibility of a "civil economy," of checks and balances, allowing companies to focus on profits, while being responsive to broader social outcomes. (See page 14.) *The New Capitalists: How Citizen Investors Are Reshaping the Corporate Agenda* analyzes the implications of the shift in ownership to public pensions and individual investors through mutual funds and direct shareownership. His essay follows:

Corporate governance must be a private-sector concern. The aim is to ensure that those who run companies are accountable to those who have appointed them to do so. Without good governance, as Adam Smith said, "negligence and profusion" will prevail. It is ironic that often it is those who object to government interference, who are also resistant to voluntary governance change. We really have a choice. Either the private sector develops proper systems of accountability, codifies them, and "complies-or-explains" its behavior relative to them, or else governments will of necessity have to intervene. Of course, there is a balance; there will always be the need for regulation. But excessive government interference is likely to prove bureaucratic and inflexible.

Accountability is central to any effective economy. The failure of the mechanisms of accountability in the capital markets played a major role in the current credit crisis. Very few investors were saying anything despite the many warning signals, for example, about failures in risk management. Those wishing to promote effective corporate governance in the wake of the financial crisis should ask five questions about the regime in their country.

1. Is there clear, effective accountability for everyone in the "ownership chain"? Taken together, are these accountabilities comprehensive in achieving a stable, effective system?
2. Are those charged with oversight responsible in the exercise of their duties?
3. Is relevant information made available?
4. Is the information independently prepared?
5. Does civil society have the ability to criticize and influence company conduct?

Those regimes which can answer these questions positively are likely to combine the efficiency, entrepreneurship, and responsibility that can be the foundation of a "civil economy."

The credit crisis has been a systemic failure. Although the media may like to blame bankers, regulators, directors or traders, no single group was responsible. It was the whole system that failed; the checks and balances that should have held things in balance proved inadequate. In devising a new system, we need to start with these principles, build institutions, and engender the right culture to underpin them. Doing so is of profound importance to anyone who cares about the efficiency and legitimacy of the financial system.

Expanding Corporate Governance Training in China

The Forum and the IFC are joining forces with the Shenzhen Stock Exchange through a Memorandum of Understanding to expand the reach of training programs that will help strengthen corporate governance in China.

Integration of Chinese enterprises into the global community is accelerating and will require adherence with the highest standards of governance. The Forum's program will focus on corporate board leadership, the media, and other areas, benefiting from significant access in the local market from the stock exchange's vast network of industrial and corporate communities.

The wide-ranging training program is designed to reach key players in the corporate governance structure, including board directors, practitioners, academics, and the media. The Forum's *Corporate Governance Board Leadership Training Resources* focuses on building corporate directors' understanding of their responsibilities in providing strategic guidance for the companies they serve, and in developing the leadership skills required to discharge those responsibilities. (See article on pages 6 - 7.)

Given the media's central role in raising public awareness, the program also includes workshops aimed at enhancing journalists' understanding of and reporting techniques on such corporate governance issues as transparency and disclosure.

The training is being provided with the support of China's Corporate Governance Program, which the IFC is implementing. Launched in summer 2008, the program is scheduled to run for three years, with the aim of helping China's public and private companies improve their corporate governance standards by adapting international best practices to local markets.

Lessons in Helping Institutes Strengthen Their Director Training Programs

Investors and other stakeholders are pressing directors to take a more hands-on approach in their stewardship. But, there is a widening gap between the governance demands on boards and directors' capabilities, particularly as companies mature in developing countries and emerging markets, and the issues become more complex and critical to survival in highly competitive markets.

To close that gap, the Forum developed the *Corporate Governance Board Leadership Training Resources* to broaden and enrich training programs conducted worldwide by corporate governance centers, institutes of directors, and others.

Covering the full spectrum of a board's functions and responsibilities, the broadly based *Training Resources* emphasizes adult-learning methodologies, drawing on the unique experiences that both training participants and the international faculty have had in addressing the issues raised in training sessions. The *Training Resources* content and training approaches were demand driven, based on a global survey of training needs.

Since the *Training Resources* was published in 2008, the Forum has rolled out the product in 12 programs that attracted 200-plus participants, one-third of whom are women, from more than 50 countries.

"The quality of the material is marvelous, and the training program in Sao Paulo was outstanding. At a Brazilian Institute of Corporate Governance (IBGC) training program, I had the chance to use a tiny portion of the *Training Resources*. It was a tremendous success. I will use the materials in all future IBGC training programs."

PAULO VASCONCELLOS
Partner at ProxyCon and IBGC Trainer

The international faculty that developed the *Training Resources* shares the lessons they've learned from their training sessions:

Be relevant. Use local examples but exercise care given the possible involvement of some training participants in the situation you present. The most powerful tool of persuasion is the experience of a competitor or comparable company in grappling with corporate governance issues.
"As we developed the *Resources Kit*," said Christopher Pierce, CEO of Global Governance Services Ltd., "we emphasized the importance of examples. But as large as the *Training Resources* is, it could not incorporate examples from everywhere. That is why we stress repeatedly in the curriculum the need for local examples."

Engage your participants throughout a training session. Assess major concerns and build relevant knowledge and skills using a variety of participatory techniques in training.
Adult learning requires a different approach than that used in an academic setting, notes Mary Jo Larson, who developed the "Training Skills Guide" for the *Training Resources.* Larson is principal at FlexAbility International LLC. "Active listening and constructive feedback are essential—you highlight effective leadership skills while facilitating an open exchange of participants' ideas and preferences. It seems an obvious point to make at first, but it is very challenging, requiring that you are attentive to diverse perspectives and interests."

Demonstrate your mastery of the subject. Be current in your knowledge of the topics you're explaining. Remember a biographical detail for each participant. Such preparation builds credibility and reinforces your effectiveness in conducting training.
"Several of the training participants will likely be well versed in the topics you will cover," said Anne E. Molyneux, director, CS International. "Errors or sloppiness in the information you convey will quickly undermine your credibility. You'll quickly see your participants' attention fade and your impact will weaken." Stay current with the topics you'll be covering in training sessions, Molyneux also advises. This will help you to meld the *Training Resources* materials with current issues.

Structure sessions to conclude with "action ideas" – mapping steps for participants to take back to their companies and implement.
Each training module concludes with an exercise in which participants are asked to list and then share their "action ideas," concrete goals they will seek to achieve as board directors. "This exercise affords participants an opportunity to pause and distill those lessons that can inform and improve their work in their boards," said James D. Spellman, principal, Strategic Communications LLC. "Participants see the direct links between their board roles and the training session's content."

Conduct an evaluation and encourage participants to sustain the camaraderie and support formed during training.
The *Training Resources* provides sample post-training assessment forms which evaluate achievements in relation to the program's goals and the quality of training activities as well as providing recommendations to guide future sessions. These assessments inform future training sessions to achieve a high standard of quality that is essential in establishing an institute's brand and broadening awareness.

The international faculty commented repeatedly on the bonds that emerge among training participants, stressing that one important challenge after training finishes is to sustain the professional networking. Having peers to contact for counsel and support is an important factor in successful efforts to reform corporate governance.

"We review the participants' evaluations very seriously: not only do they help us to take a snapshot of outcomes at the end of each program, but we also use them as a learning tool to improve future rollout programs and the *Resources Kit* itself," said Ghita Alderman, the Forum projects officer who oversees this initiative.

RESOURCES KIT ROLLOUT CONTINUES IN CHINA, AFRICA, AND EUROPE

In May, the Forum helped organize a Board Leadership "Training of Trainers" (TOT) program with various institutions and universities in China. Cosponsored by the Shanghai and Shenzhen Stock Exchanges, the well-attended event included strong gender participation and generated more requests for IFC support. (See page 5.)

Another program was held in Marseilles, France for the Association of European Development Finance Institutions (EDFI, a group of 16 bilateral institutions that provide long-term finance for private-sector enterprises in developing and reforming economies). The EDFI secretariat and the French (Proparco) and Austrian (Oesterreichische Entwicklungsbank AG) development finance institutions funded the program. This effort responds to the need of development finance institutions to train client companies in which they have invested.

In Nairobi, Kenya, a TOT program drew 20 participants from throughout Africa, including Uganda and Tanzania. Working with the Centre for Corporate Governance in Kenya, the Forum developed a program that covered, among other topics, the business case for corporate governance, the governance of risk, and the control environment.

"Corporate governance anchors the corporate sector," said one participant, Aloys Opiyo, an export promotion official with the Council of Kenya. "I am convinced that this is the way to transform this country. I want to make a commitment to seeing a civil society anchored on corporate governance principles."

In these and other TOT programs, participants expressed the desire to continue the network formed during the sessions. The Forum is responding to that need through a blog and Facebook and sharing requests for information with its global network of public- and private-sector experts. (See page 10.)

AHEAD

The Forum is evaluating the success of the rollout over the past 18 months to inform future TOT programs. It also plans to produce a "lessons learned" that summarizes the success factors that institutes of corporate governance and others can replicate to ensure success in their training programs. Encouraging the networks established through the TOT programs will also be part of the Forum's future work.

Mervyn King: Board Reforms Needed to Improve Risk Management, Resolve Corporate Governance Disputes

PSAG Member Mervyn King is Professor Extraordinaire of Corporate Citizenship at the University of South Africa and chairman of the committee that produced three Reports on Corporate Governance (widely known as the "King Reports"). King has contributed to the Forum's work in various capacities, including both guiding and assisting with some of the Forum's toolkits. He also has participated as an adviser with the Forum's Private Sector Advisory Group—particularly in Eastern Europe and MENA—to draft and implement country-specific codes of corporate governance.

Under King's leadership, a committee of 90 members drafted "King III," which was made available to the public in February for comments. The final version is due in September. The report's start was triggered by South Africa's new company laws, which need to be aligned with international standards. King III builds on the seven principles of good corporate governance established in King II, namely discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility. King III stresses the importance of alternative dispute resolution (ADR) mechanisms for boards, which the Forum is addressing through a new toolkit (see the article on page 8) and programs to broaden awareness and build capacity. His interview with the Forum follows (Forum questions in bold):

In all three King reports, good governance is equated with effective leadership – that under the direction of strong leaders, challenges are more easily surpassed, strategy more clearly defined, and ethics more dominant in a company's culture.

A company can have comprehensive and strong corporate governance rules, but if board directors don't exercise leadership in ensuring that the company adheres fully to the principles and spirit of those rules, then the company is not well governed and shareholders are ill served. The director's role is not an easy one today in light of corporate scandals, a global recession, unsteady financial markets, and greater pressure from shareowners and other stakeholders. Navigating through these complexities and building support for a strategy and actions requires competent leaders.

The financial crisis has quickly changed our perceptions of financial markets and underscored the importance of corporate governance. Throughout King III, the impact of this crisis has informed the report's recommendations and observations.

A question one hears repeatedly now is, "Where were the boards?" As an OECD report made clear earlier this year, the financial crisis resulted in part from

CONTINUED ON PAGE 8 ▸

King Interview. CONTINUED

failures and weaknesses in corporate governance. Some boards did not serve their purpose, for example, of safeguarding against excessive risk-taking by banks and other financial concerns.

To be sure, the question of risk management needs a discourse far longer than this interview. One aspect of this subject is whether credit ratings can ever be sufficiently objective and independent so that they have real value to inform boards' credit committee. Further, boards can no longer mindlessly approve their credit committees' recommendations.

We should not, however, interpret these governance issues as reflecting a dysfunction in the corporate governance models where values-based principles are followed. Governments should be cautious in how they respond to calls for more general legislative responses.

King III recommends the use of alternative dispute resolution to prevent or resolve corporate conflicts and disputes.

ADR has become an important element of good governance. Directors should preserve business relationships. Consequently, when a dispute arises, in exercising their duty of care, they should endeavor to resolve it expeditiously, efficiently, and effectively. Mediation, for example, facilitates the discovery of novel solutions, which a court may not achieve, being constrained to enforce legal rights and obligations. In mediation, all parties' interests are considered, rather than their rights and obligations.

"Good governance is essentially about effective leadership. Leaders need to rise to these challenges if there is to be any chance of effective responses. Leaders need to define strategy, provide direction, and establish the ethics and values that will influence and guide practices and behavior with regard to sustainable performance."

DRAFT KING REPORT III

New Forum Toolkit on Resolving Corporate Governance Disputes

Corporate governance disputes involve corporate authority and its exercise. Such disputes frequently involve the company's shareholders, board directors, and senior executives. Such disputes constitute a category of their own, one that differs from labor, commercial, consumer, or other disputes to which the company is a party.

Although they are less common for well-governed companies, most companies experience corporate governance conflicts or disputes. Left unresolved, these disputes can paralyze the board, harm the company's performance, and deter investors. Implementing effective dispute resolution processes for preventing and resolving corporate governance disputes is essential if a company is to succeed over the long term.

To help prevent and efficiently resolve corporate governance disputes, the Forum is developing a new toolkit on ADR processes and techniques. The toolkit provides guidance on how consensus-based alternatives to adjudication can be used to prevent, resolve, and reduce the negative impact of corporate governance disputes and, consequently, contribute to improving corporate governance practices, strengthening investor confidence, and supporting business continuity.

"Dealing adequately with disputes that affect the company's authority and its exercise should be on the agenda of every board," said Forum Senior Projects Officer Marie-Laurence Guy, who is leading this project. "Efficient dispute resolution is part of good risk management. Planning ahead for corporate governance disputes can save the company and its shareholders a lot of trouble and money."

The toolkit is targeted at those organizations and institutions that are helping companies implement good corporate governance practices and/or seeking ways to manage and prevent disputes in a company's best interest. These include institutes of directors, corporate governance centers, corporate law firms, corporate governance consulting firms, mediation and arbitration centers, universities, and research centers.

The toolkit breaks down the common types of governance disputes and provides techniques for effective resolution. It also offers practical suggestions and training resources for corporate governance institutions and dispute resolution experts who wish to offer their corporate governance dispute-resolution services.

The first volume explores the rationale for using out-of-court dispute resolution

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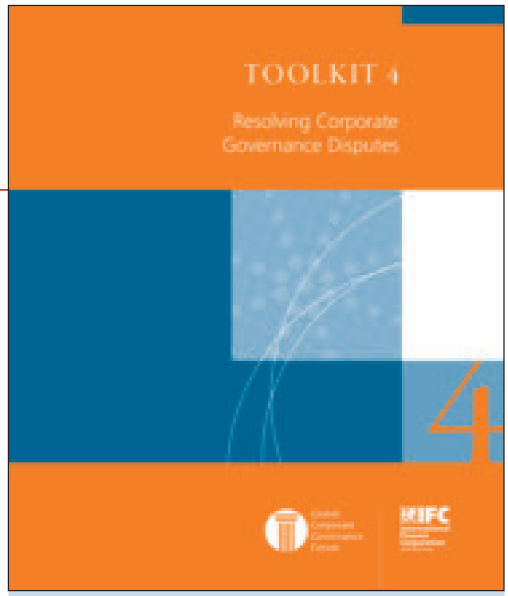


The toolkit will be launched in the third quarter 2009.

WHAT ARE CORPORATE GOVERNANCE DISPUTES?

- Corporate governance disputes involve corporate authority and its exercise.
- Parties to a corporate governance dispute may include the company's shareholders, its board members, and senior executives. It may also involve other stakeholders who challenge the company's governance, ethics or strategy.
- Corporate governance disputes typically require the board's attention regardless of whether the board or individual directors are a direct party to the dispute.

Source: *Resolving Corporate Governance Disputes Toolkit 4. Forthcoming in 2009.*

New Forum Toolkit. CONTINUED

mechanisms to resolve corporate governance disputes. The second focuses on the implementation and use of corporate governance dispute resolution mechanisms and services. The third addresses the training needs of both corporate directors and dispute-resolution professionals to better prevent and deal with typical corporate governance disputes.

There is little empirical data on how best to design, implement, and evaluate corporate governance-related dispute resolution. Drawing on examples from more than 19 countries, this toolkit constitutes a truly innovative approach on the role that ADR can play in improving or enforcing corporate governance practices.

"Countries seeking to create a capital market (and companies seeking to attract local or global capital) must develop a framework that assures investors of two things: first, the assets they provide will be protected and, second, disputes related to the company's governance can be addressed effectively."

CHRISTIAN STRENGER
PSAG Deputy Chairman
Member of the German Corporate Governance Commission
Director, DWS Investment GmbH

AHEAD

The Forum plans to roll out the toolkit in the third quarter 2009, starting with a one-day knowledge management workshop at IFC headquarters to train IFC corporate governance officers and familiarize the Forum's consultants with the application of the toolkit. This will be followed by two distinct international capacity-building workshops targeted at toolkit end users. The first will be tailored to director training organizations and corporate governance association while the second will address dispute-resolution professionals and mediation centers.

Meet a Forum Partner: Center for International Private Enterprise

A long-time partner with the Forum, the Center for International Private Enterprise (CIPE) works with local partners worldwide to strengthen democracy through private enterprise and market-oriented reform.

CIPE is one of the four core institutes of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. For 25 years, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society.

CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.

"The value of CIPE's partnership with the Forum is in our joint commitment to work with experts in various fields of expertise from developing countries to shape international guidelines and principles on corporate governance." said Dr. John D. Sullivan, CIPE's executive director.

"The resources that are thoughtfully developed by the Forum with such input prove to be practical and relevant tools for those implementing corporate governance reforms in developing countries."

Journalists training program in Almaty sponsored by CIPE, the Central Asia Corporate Governance Project, the Thomson Reuters Foundation, and the Forum.

AHEAD

Gian Piero Cigna, senior counsel to the European Bank for Reconstruction and Development, will discuss the bank's joint efforts with the Forum.

Forum Uses Blog, Facebook to Promote Collaboration

The Forum launched a new online resource, a blog, to support its *Corporate Governance Board Leadership Training Resources*. On the site—boardleadershiptraining.com—users can freely obtain the content and resources found in the *Training Resources*. The blog also facilitates collaboration through the sharing of ideas and experiences, building cross-regional engagement.

This website is password protected; access is restricted to the select group of trainers who have participated and completed a TOT event.

José Cruz Osorio is the Forum's main interlocutor on the blog, facilitating responses to queries, prompting discussions, and moderating debates. Osorio has been working with the Forum for three years on issues ranging from business ethics and stakeholder engagement to corporate governance reforms at the country level. His extensive experience includes work at the United Nations and the U.S. Agency for International Development.

The Forum has also established a Facebook page called "Reporting on Corporate Governance" to support the development and use worldwide of a toolkit to train journalists. (See article on page 11.) Within a week of its launch, 34 persons had registered on the Facebook page, including participants from Forum workshops in Cairo, Almaty, and Lusaka. These workshops are informing the toolkit's content and direction.

Updates, relevant materials, and event information are part of the contents that the Forum is posting. The Facebook page will also provide a channel for sharing and exchanging news, opinions, and suggestions. This platform will also give users an opportunity to market their work and raise their media's profile by sharing coverage. A quarterly newsletter will support these efforts, with distribution planned for the Forum's global network of investors, financial institutions, professional associations, governments, and regulators.

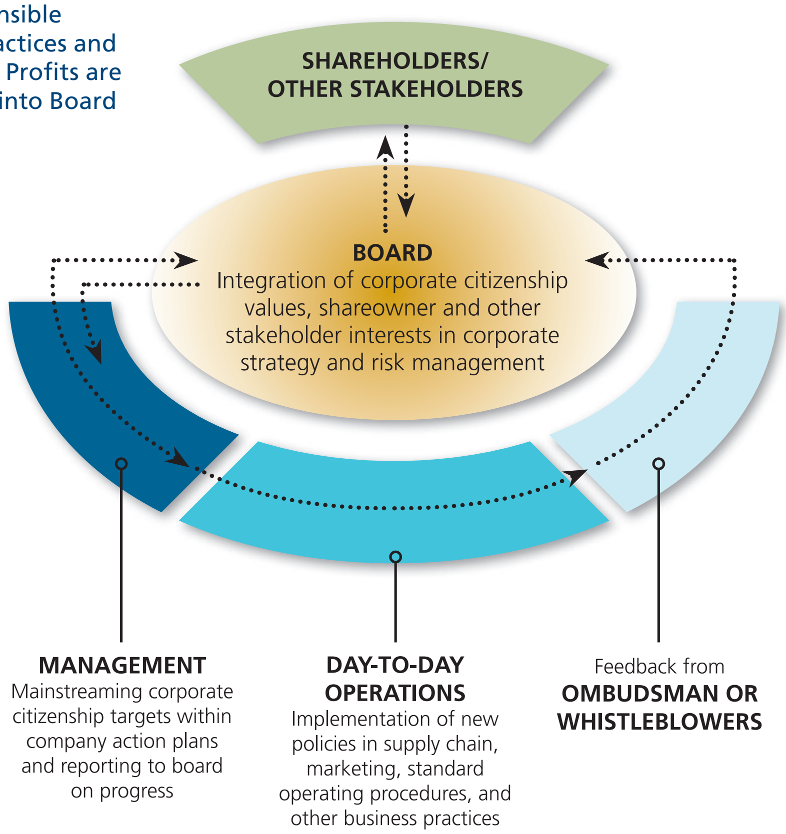
Forum, U.N. Global Compact Broaden Joint Efforts

The Forum is broadening its work with the U.N. Global Compact, beginning with a joint publication that explains why corporate citizenship is integral to corporate governance and board leadership.

The global financial crisis has heightened the need for boards to provide well-informed strategic direction and engaged oversight that stretches beyond short-term financial performance. Doing so prepares companies to more comprehensively address risks, by anticipating potentially adverse impacts on people and the environment and managing tangible reputational risks.

"Good corporate governance practices instill in companies the essential vision, processes, and structures to make decisions that ensure longer-term sustainability," Rachel Kyte, Vice President Business Advisory Services for the IFC. " More than ever, we need companies that can be profitable as well as achieving environmental, social, and economic value for society."

How Responsible Business Practices and Sustainable Profits are Embedded into Board Functions



Jamaica's Institute Taps Forum Network to Update Code

The Private Sector Organisation of Jamaica (PSOJ) plans to update and revise its Code of Corporate Governance (issued in 2006) and to develop a toolkit and handbook for small, medium, and large (listed and non-listed) enterprises.

These products will be made available to local companies to assist them in their adoption of the principles of good governance and will augment the several strategies being used by the PSOJ, including director training, corporate governance roundtables, and recognition and awards programs.

"For us to succeed in this project within the short timeframe we have, we didn't want to reinvent the wheel when we knew other institutions such as ours have accomplished the same work," said Sandra A. C. Glasgow, chief executive officer of PSOJ.

"We turned to the Forum to use their network to reach out to experts, institutes of corporate governance, and others for examples of codes and other information that would help us. The response to our request was immediate, and the counsel we received robust."

Established in 1976, PSOJ is a national organization of more than 280 private-sector associations, companies, and individuals that are working together to promote a competitive and productive private sector.

"Training of Trainers" session sponsored by PSOJ

Media Training

Session in Cairo sponsored by the Thomson Reuters Foundation, the Forum, and the IFC Corporate Governance Advisory Services.

The Forum and Thomson Reuters Foundation have launched a cooperative program designed to build capacities among journalists in reporting on issues related to corporate governance.

"The program's objective is to strengthen journalists' reporting and investigative skills in light of their unique ability to disseminate information on corporate governance to the business community and the wider reading public, and to make the public more aware of company activities that can have a significant impact on society," said Gene Spiro, a senior projects officer with the Forum.

Since 2007, the Forum has convened media workshops in Belgrade, Cairo, Mumbai, and Almaty. Huge demand for the training has led the Forum to plan future workshops in Africa, India, Latin America, China, and the Middle East. The Forum is also designing a special version of the training program for IFC Corporate Governance Advisory Services.

In Lusaka, the Forum convened a regional media workshop in March, partnering with the Thomson Reuters Foundation and the Institute of Directors of Zambia. Twenty-four journalists, including 10 women, from eight different countries within East and Southern Africa were trained.

The training sessions included such topics as: "What can journalists do in covering corporate governance issues?"; "The Impact of Corruption on the African Business Environment"; and, "Financial Statement Exercise."

The workshop was opened by George Kunda, vice president of the Republic of

CONTINUED ON PAGE 12 ▸

Zambia. "Our government sees corporate governance best practices as part of a larger effort to improve the overall governance of the country that will be anchored on transparency, accountability, and integrity," he said.

"Journalists have the unique ability to disseminate information on corporate governance to business, community, and to the wider reading public, and to make readers aware of company activities that can have significant impact on society."

At the program's conclusion, participants mentioned their main takeaways, including how the program helped them "understand the pivotal role of the board," "the importance of talking to individual directors," and "the necessity of reading annual reports to develop stories from companies' financial conditions and strategies." (See adjacent box.)

The workshops now regularly feature coverage of the global financial crisis and the role that ineffective corporate governance practices played. These discussions use a variety of speakers and focus on the absence of proper governance at financial institutions and how these stories are being investigated and covered by journalists in different regions.

Meanwhile, the Forum's toolkit moves forward, with completion scheduled for 2010. This toolkit will help prepare reporters and editors to more effectively cover corporate governance issues, ranging from the quality of financial statements to the transparency of board decisions.

AHEAD

Planning is underway for workshops in:

India (July)

Latin America (September)

China (November)

MENA (December)

TAKEAWAYS FROM JOURNALISTS

- Build relationships with individual directors to gain insights into a company's policies and decision making
- Break a large, complicated story about corporate governance into smaller stories to simplify the information and address a publication's space constraints
- Follow up your initial stories with progress reports on changes
- Learn about the decision-making process of a board; it's key to understanding the rationale for decisions
- Examine a company's financial ratios to find a story; these ratios can shed insights into a company's financial health and long-term prospects for success
- Pay attention to how a company and its board adhere to the principles of corporate social responsibility

Code Development Activities in Eurasia

In partnership with the government in Azerbaijan and the U.S. Agency for International Development, the Forum and the IFC regional team organized a conference in mid-January to initiate private-public dialogue on developing a new corporate governance code that will help improve the business environment in Azerbaijan, enhance transparency of local companies, and increase their competitiveness in local and international markets.

The event was held under the auspices of the Minister of Economic Development and targeted a wide audience, including the media to inform the public and the initiative's stakeholders. More than 80 representatives of the private sector, government, and academia attended to discuss and share experiences on developing codes in other countries.

"A national corporate governance code will help address the most evident governance challenges facing companies in Azerbaijan," said Mikayil Jabbarov, deputy minister of Economic Development of the Azerbaijan Republic. "It will also boost their confidence and competitiveness, making them more attractive to investors."

In 2005, IFC launched the Corporate Governance Project to improve practices of joint-stock companies and banks in Azerbaijan, helping them enhance operations and increase their ability to attract financing and investment. To date, the project has trained more than 350 joint-stock companies and banks and enabled clients to attract about $18 million in investments due to improved practices. It also helped the government develop four pieces of legislation, which have been adopted, and developed a model course that was adopted by five local universities. The project is supported with funds from the government of Switzerland.

This event was followed by a two-day workshop on "how to develop codes of best practice in Eurasia." The Forum addressed the challenges faced by task forces at the early stages of developing codes using Toolkit 2 and the lessons learned from MENA and Southeast Europe. Around 20 participants from Kazakhstan, Georgia, Kyrgyzstan, Tajikistan, and Azerbaijan joined this workshop. They included current or potential members of drafting committees.

The workshop in Azerbaijan brought together more than 80 representatives from the private sector, government, and academia to discuss and share experiences on developing codes.

Building Director Institutions in MENA, Southeast Europe

Representatives from eight countries (Egypt, Lebanon, Pakistan, Morocco, Tunisia, Algeria, Dubai, and Oman) met with international consultants for a workshop in Cairo on corporate governance which the IFC and the Forum organized. The initiative aimed to help local institutes of directors (IOD) build up their organizations and implement corporate governance practices.

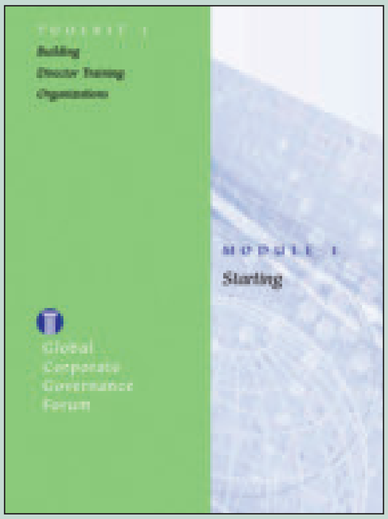
The conference moderator, Emmanuel du Boullay, a senior consultant to the Forum and independent director of the French Institute of Directors (IFA), led the group through an intensive series of lectures and exercises.

In his sessions, du Boullay emphasized how corporate governance has changed the business climate. "The biggest improvement has been increased democracy on company boards. Ten years ago, boards were basically useless, but since the internet crisis, boards and shareholders have become more involved in running companies. They are doing more to oversee and challenge decisions and policies, and this process has led to more diversity on boards, which is very positive. People are taking more initiative to actually understand the business model and participate in improving it."

In Belgrade in February, IFC Advisory Services for Southern Europe and the Forum, with support from the European Confederation of Director Associations (ecoDa), organized a two-day regional workshop on "Setting up Sustainable Director Training Organizations." Drawing participants from six countries, the workshop helped organizations set up or develop their director training capacity, using the Forum's *Toolkit on Building Director Training Organizations*. (The toolkit can be downloaded from the Forum's website: www.gcgf.org/ifcext/cgf.nsf/Content/Toolkits .)

"I would like to extend my appreciation to the IFC and the Forum for this initiative, which I believe helps the efforts of various countries to develop and enhance the corporate governance and business environment. Exchanging ideas and exploring experiences from the participants indeed helped us in our plans for developing IOD and training functions within our organization."

KHALID DEEB
Director General,
Abu Dhabi Center for Corporate Governance



The Forum's *Toolkit on Building Director Training Organizations* distills experiences from 17 developed and developing countries and provides practical advice on building organizations that train corporate directors in sound corporate governance practices.

In five modules, it offers step-by-step guidance on building organizations that will train directors to fulfill their professional role, advocate policy reform to ensure that corporations fulfill society's expectations, and represent the profession of directors.

The toolkit also provides business planning and governance tools. It explains how to apply for funding and build sustainability, how to develop activities, and how to develop and deliver a training program. Because many organizations that train directors are membership-based, the toolkit offers information on targeting, attracting, and retaining members.

TOPICS AT THE WORKSHOPS

- The process of starting up a sustainable institution to provide quality training for directors and advocate good corporate governance
- A step-by-step approach and a variety of mechanisms that can help workshop participants achieve self-sufficiency through quality services
- Information on targeting, attracting, and retaining members and marketing the services of the institute
- Approaches to director training and curricula development

PSAG members Patrick Zurstrassen, president of The Directors' Office, Luxembourg, and Olli Virtanen, secretary general of the Finnish Association of Professional Board Members, and Leonardo Viegas, a founding member of Brazil's Institute of Corporate Governance, contributed their expertise. Miles Templeman, director general of the U.K. Institute of Directors and chairman of ecoDa, also participated. Representatives from the Croatian and Slovenian Institutes of Directors shared their experiences.

Second International Research Conference, Sao Paolo, July 2 – 3

The Forum is supporting the "Second International Conference on Corporate Governance in Emerging Markets," which facilitates dissemination of state-of the-art research on corporate governance in emerging markets, with the objective of supporting policy and practice development.

This conference is a follow-up to the "First International Conference on Corporate Governance in Emerging Markets," which was held in Istanbul in 2007 (at Sabanci University with the Corporate Governance Forum of Turkey) and the Workshop on Corporate Governance in Emerging Markets in 2008 (at the Millstein Center for Corporate Governance and Performance, Yale School of Management).

This year's conference is hosted by Fundação Getulio Vargas Law School in São Paulo (Direito GV) and COPPEAD Graduate Business School at the Federal University of Rio de Janeiro (COPPEAD).

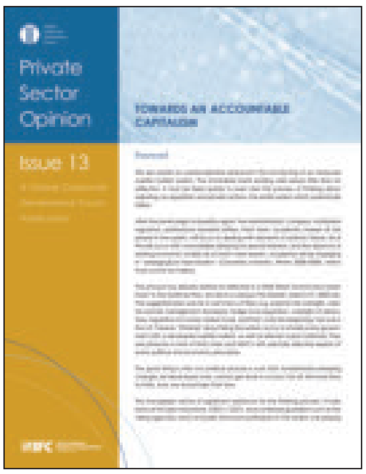
The program will feature comparative research of clusters of developing countries sharing institutional or macroeconomic similarities. These clusters may be comprised of countries that are geographically distant, such as the BRIC (Brazil, Russia, India, and China), or countries with similar corporate governance reform approaches. Specific topics include research on the determinants and effects of board of directors, characteristics of family firms, the importance of specific forms of corporate ownership in emerging markets. The conference also includes two sessions on Brazilian corporate governance.

Two keynote speaker sessions, seven plenary paper sessions, and two parallel paper sessions are scheduled for the two-day event. The keynote speakers are Prof. Joseph P. H. Fan, with the Chinese University of Hong Kong, and Prof. Vikramaditya Khanna, with the University of Michigan Law School.

Both the local organizers Ricardo P. C. Leal (COPPEAD Graduate School of Business and UFRJ) and Érica Gorga (Direito GV and Cornell Law School) and Melsa Ararat, who is the coordinator of the Emerging Markets Corporate Governance Network, agree that "the papers and discussions will offer new thinking and innovative approaches to corporate governance research in emerging markets."

For more information, visit the Forum's website (www.gcgf.org), which provides a link to the conference's home page.

Forum Publications

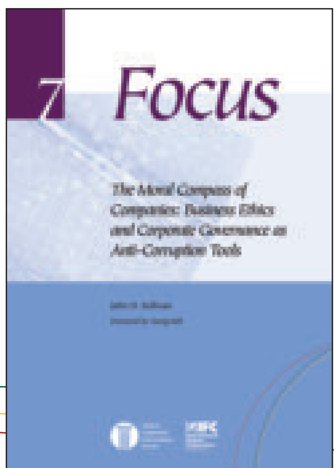


Private Sector Opinion

Towards an Accountable Capitalism

By Stephen Davis, Jon Lukomnik, and David Pitt-Watson

The authors put forward a vertical regulatory system to enhance the accountability among market participants. They search for a different paradigm within which to consider potential fixes. They seek and describe a new "regulatory philosophy" by which to judge each potential fix. That philosophy they label "vertical regulation." Instead of dealing horizontally with what may be necessary regulation for each participant, they suggest that the principle of future regulation should: "[E]nhance the robustness of the interaction between market participants….and enable the various entities within the system to be accountable to each other and to hold each other responsible." They recognize that regulation alone will not suffice, even using the vertical approach. "[T]he ethics of business are fundamental to economic success."



Focus 7

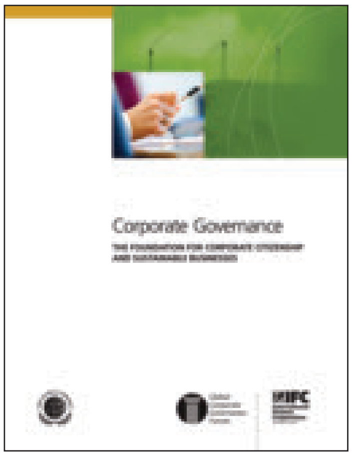
The Moral Compass of Companies: Business Ethics and Corporate Governance as Anti-Corruption Tools

By John D. Sullivan

Predictable, competitive, and fair economic environments free of corruption are central to sustainable business, economic growth, and national development. This publication introduces guidance and recommendations for integrating ethics programs and corporate governance mechanisms to guard against corruption. As an anti-corruption tool, corporate governance introduces standards and regulations, which over the long run exposes bribery and illegal behavior that makes corporate corruption unsustainable.

Lessons Learned: For The Public Good: PSAG

Members of the Private Sector Advisory Group contribute more than US$1 million annually in pro bono work to support the Forum's work in advancing corporate governance. PSAG members donate their time to provide counsel to countries developing corporate governance codes or to help boards implement reforms so that they can become more effective. PSAG members' experience in senior executive positions in the private and public sectors grounds their practical advice while their professional successes inspire others to follow their lead.



Forum-UN Global Compact: Corporate Governance: The Foundation for Corporate Citizenship and Sustainable Business

Corporate citizenship – a company's commitment to ethical behavior and responsibility towards the community and environment in which it operates – has been on the periphery of corporate governance and board leadership, linked mainly to corporate reputation. However, in today's globalized and interconnected world, investors, creditors and other stakeholders have come to recognize that integrating ethical, environmental, social, and economic responsibilities of a company are integral to its performance and are, therefore, a strategic imperative.

AHEAD

Global demand for the Forum publications is high, with a significant number of downloads from the Forum's Web site and requests to republish excerpts from several publications. The *Focus: Moral Compass* will be reprinted in Arabic. The Forum's *Toolkit on Building Director Training Organizations* is being translated into Russian. Other translations are being considered within the constraints of Forum resources.

SCENES FROM THE FORUM'S GLOBAL ACTIVITIES

1


2


3


1) Participants gather for a formal photo during a Forum-sponsored event in Maputo. The current president, Armando Guebuza, and former president, Joaquim Chissano, spoke in support of corporate governance initiatives that the local institute is advancing with Forum support.

2) Investors and business leaders share their views on corporate governance at an event sponsored by the Forum.

3) Participants engage in an adult training exercise during the *Board Leadership Training Resources* program in Beijing.

Forum's Work is Vital in Global Efforts to Broaden Use of Best Practices

Daniel Blume is Principal Administrator in the OECD Corporate Affairs Division. He is responsible for oversight of the OECD's corporate governance work with non-member countries (in Asia, Latin America, Eurasia, Southeast Europe, the Middle East and Africa), with particular responsibilities for management of the Latin American Roundtable on Corporate Governance and Companies Circle. He was a contributor to the Latin American White Paper on Corporate Governance, and to ensuring non-OECD country input into the revision of the OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises. He has worked at the OECD since 1994, including as an adviser on economic development issues in the cabinet of the Secretary General, and before that on public governance and management issues. From 1991-1994, he worked in the U.S. Office of Management and Budget. Following five years as a journalist, he received his Masters degree in public policy from Duke University in Durham, North Carolina in 1991. His interview with the Forum follows (Forum questions in bold):

Why are the Forum's efforts on behalf of the public good especially needed now?

It has been clear in the wake of the current global financial crisis that a number of corporate governance failures have contributed to this crisis, ranging from the ineffective oversight by shareholders and boards to inadequate risk management. With public attention focused on these problems, the timing is ripe now for the Forum to be able to support important improvements.

While some companies have avoided problems by maintaining good corporate governance standards during this period, many of these problems emerged in specific regulatory institutions and firms that failed to effectively implement existing rules and international standards. The Forum can play an important role in promoting implementation of such corporate governance standards on a global basis, drawing upon international best practice.

In your view as a member of the Steering Committee, what specific Forum projects stand out?

The Forum's support for Regional Roundtables on Corporate Governance in Asia, Latin America, Eurasia, Southeast Europe, the Middle East, and North Africa —in partnership with the OECD and the World Bank Group—has provided a valued contribution to corporate governance progress in these regions. This has supported the growth of locally led reform efforts by bringing together advocates of reform from the public and private sectors and enabling them to learn and benefit from each others' experience. While the Forum is currently more focused on other country-focused projects, for example, to support the development of corporate governance codes and board of director training, these projects have made very good use of the networks first established through the roundtables and further expanded upon them to advance implementation on the ground.

As you look ahead, what are the greatest challenges? What do those challenges mean for the Forum?

There will be new lessons emerging from the financial crisis, impacting both on priorities for corporate governance reforms as well as on international standards and recommendations. The Forum needs to maintain a link both to the policy level as well as working with the private sector on the ground, because the efforts of both need to be mutually reinforcing. Neither can succeed without understanding the priorities and constraints that each face in supporting good corporate governance.

Private Sector Experts: A Key Forum Resource

The Global Corporate Governance Forum's Private Sector Advisory Group (PSAG) brings together more than 75 of the world's most prominent experts on corporate governance. Business leaders, lawyers, investors, and other professionals volunteer their time and expertise pro bono to help implement better corporate governance practices in developing and transition countries.

The high profile of the PSAG members helps the Forum actively raise awareness on corporate governance issues and efficiently advise professional organizations, regulators, and policymakers who are proactively reforming corporate governance practices in their countries.

SECRETARIAT

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