Global Corporate Governance Forum

Better Companies, Better Societies

WINTER 2010

A Progress Report

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ABOUT THE FORUM

The Global Corporate Governance Forum is the leading knowledge and capacity-building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences, and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

The Forum is a multi-donor trust fund facility located within IFC, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

Steering Committee Chairman: Corporate Governance Drives Economic Growth
Miguel Marques talks about Forum's initiatives to support national and global efforts to strengthen economies following the global financial crisis.

Forum to Establish Centers of Corporate Governance
The Forum is working with institutes in Brazil, Indonesia, Bangladesh, Morocco, and Egypt, among others, to help build both scale and reach, and to facilitate regional contextualisation.

PSAG Member's Work Helped His Country, Africa Advance
Private Sector Advisory Group member Patrick D. Chisanga, who helped launch Zambia's Institute of Directors, shares how his voluntary work has transformed his professional life while helping his country and Africa advance corporate governance.

Initiatives Support Latin America's Progress
The Forum played a central role in three major programs in Latin America—a trifecta for corporate governance. The Companies Circle Meeting, the Latin American Roundtable, and the meeting of the Latin American Institutes of Corporate Governance all took place in October in Brazil.

Financial Markets Recovery Project Delivers First Results
The *Governing Banks* supplement to the *Board Leadership Training Resources* has been published and piloted in the first training of trainers in Indonesia.

Thought Leadership: Insights on Board Diversity, Counsel for Financial Supervisors, Tips for Journalists.

Corporate Governance Remains a Priority to Fuel Economic Growth

Miguel Marques assumed the chairmanship of the Forum's Steering Committee in June 2010. A Luxembourg national, he is a senior advisor with the Luxembourg Ministry of Finance. Marques is also the alternate director for Belgium, Luxembourg, and Slovenia at the European Bank for Reconstruction and Development (EBRD) in London, where he has represented Luxembourg's interests since 2005.

Corporate governance remains a top priority as part of the solution towards supporting global recovery worldwide. How is that defining the Forum's work?

The Forum has been involved in projects in more than 70 countries, bringing to bear its global network of experts and its acclaimed knowledge products, seeking to advance corporate governance reforms and best practices through its regional corporate governance partners. In particular, the Forum's work in three main areas is contributing to national and global efforts to strengthen economies following the unprecedented events surrounding the global financial crisis.

The Forum has been involved in projects in more than 70 countries through its global network of experts and its acclaimed knowledge products.

First, there's *Governing Banks*, the Forum's training program for bank directors in emerging markets and developing countries. These directors need to understand in more depth: the nature of risks posed by the rapid emergence of highly sophisticated financial instruments; the increasing interdependence of financial markets and economies that facilitate the contagion effect, so to speak, of financial problems; and, the hallmarks of effective risk-management systems to serve as early-warning systems and to guide policies and practices that promote prudent risk taking.

Governing Banks was launched in Indonesia in October 2001, in partnership with that country's Institute of Corporate Directorship (IICD) and the Indonesian bank association, Perbanas. (See the article on page 6.) It is part of the Forum's Financial Markets Recovery Project (FMRP). Future rollouts are planned elsewhere worldwide.

Another important area of the Forum's work is the development of training resources to help boards more effectively address conflicts through privately-facilitated mediation without resorting to the courts. The work on this program started earlier, but it became even more relevant in the aftermath of the financial crisis. We saw stakeholders and board directors themselves placing blame and demanding solutions, including recompense to recoup financial losses. Litigation is the most frequent means sought for redressing the mistakes and punishing the wrongdoers. But that means tying up boards in lengthy, costly legal strategies and maneuvers that distract directors from dealing with the many urgent issues erupting from the financial crisis.

A third area is code development to promote good corporate governance practices. The Forum has been instrumental in advancing corporate governance codes worldwide by providing technical assistance, such as in Tajikistan and Azerbaijan. Other Forum projects are under way in Malawi and Senegal, where President Abdoulaye Wade endorsed the effort. In its work, the Forum provides practical insights into the successes and weaknesses of code drafting while building the business case for such codes, which helps business leaders recognize the value of codes beyond simply being used as a regulatory instrument.

Looking ahead, the Forum's five-year strategy envisions the centers of corporate

> *"The new generation of corporate governance will stress 'governance for sustainability.' Business enterprise must see the full value chain. Companies will need to develop complex partnerships that acknowledge legitimate stakeholder interests."*

governance delivering a large part of the Forum's programs in a way that fits local and regional business and regulatory environments. This strategy will be executed in close collaboration with IFC Corporate Governance Advisory Services, which has been a great partner for us in delivering programs. (See the newsletter article on page 4.)

When you look ahead, in which direction do you see corporate governance evolving?

PSAG member Jan-Olaf Willums recently gave a presentation ("Good Governance: Key to Sustainability"; www.gcgf.org) that makes a strong case for good governance to support sustainable businesses, and I emphasize the word *sustainable*.

He saw the first generation of corporate governance as one focused on legal issues, structures, individual competencies, and director independence. The second generation, he says, emphasized stakeholder engagement and new models of accountability. We are now entering the third generation, which he believes will stress "governance for sustainability." Business enterprise must see the full value chain. Companies will need to develop complex partnerships that acknowledge legitimate stakeholder interests. Board and senior management competencies must go beyond board techniques and industry expertise to include demonstrated experience in being receptive to new agendas.

In a *Focus* publication ("Stakeholder Engagement and the Board: Integrating Best Governance Practices"), Peter Zollinger, senior vice president of the firm Sustainability, shares his insights into best practices for engaging stakeholders. Traditional management approaches fail to provide the tools for such engagement. That can mean many missed opportunities. Peter shows how taking stakeholder concerns and interests into account can improve relationships, make it easier for a company to operate, lead to ideas for products or services that will address stakeholder needs, and allow the company to reduce costs while maximizing value.

AHEAD

May 2011. Forum's Steering Committee Meeting in Luxembourg

A participant reviews materials at the first FMRP Board Leadership Training of Trainers workshop. Indonesia, November 2010.

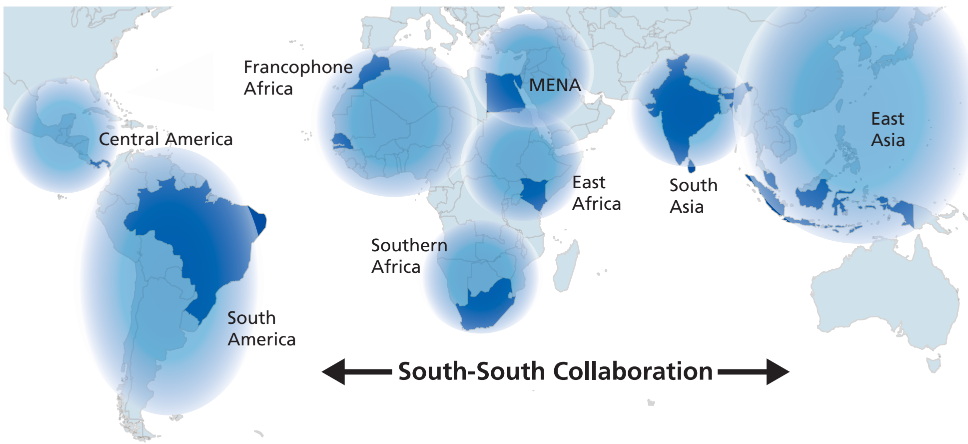
GOOD CORPORATE GOVERNANCE DRIVES INNOVATION

"Innovation scholars have recognized the importance of corporate governance for understanding corporate innovation activity. Innovation, indeed, does not appear as a result of technological determinism in a context of profit-maximizing firms, but rather it emerges (or it does not) because individuals decide to invest (or not to invest) in innovative projects; these investment decisions, in turn, are shaped by the corporate governance system."

Filippo Belloc, "Corporate Governance and Innovation: A Survey." March 3, 2010. Available at: www.ssrn.com.

Due Diligence Underway to Select Centers of Corporate Governance

At the core of the Forum's five-year plan (2011–2015) is the development of regionally strategic centers of corporate governance that will lead board director training and other initiatives appropriate to their respective regions.



Specifically, the Forum aims to:

- Build scale and reach through the corporate governance centers. It is planned that these centers will comprise a combination of mature and less-developed centers to incubate different levels of knowledge and application. The centers will serve as a key distribution mechanism for the Forum's knowledge products and their local application. In addition to deploying the Forum's own specialized experts to assist each center, the Forum is partnering with IFC Corporate Governance Advisory Services.
- Strengthen the capacity of the centers in regionally strategic locations and with a view to fostering South-South cooperation among the more mature and less developed centers. This will deepen cross-regional collaboration and knowledge sharing. Work has started with institutions with which the Forum or IFC has had a longstanding association: the Indonesian Institute for Corporate Directorship, Brazil's Institute of Corporate Governance, Egypt's Institute of Directors, the Bangladesh Enterprise Institute, and the Morocco Institute of Directors (Institut Marocain des Administrateurs). Each institution is going through a comprehensive due diligence and feasibility analysis in fiscal year 2011. Once the final decision is made, the Forum and the selected centers will sign a detailed legal contract, setting out clear objectives and deliverables that will be used to measure each center's individual progress and the overall program's effectiveness.

"This will involve a significant knowledge transfer from the Forum to the centers, which allows the Forum, in the end, to be much closer to the beneficiaries of our work, effectively leveraging our limited resources, and developing stronger ownership of corporate governance reform initiatives at the local and regional level," said Philip Armstrong, the Forum's head.

The Forum and the Asian Institute of Corporate Governance has issued a call for papers to be presented at the Third International Conference on Corporate Governance in Emerging Markets, which will be held May 28–29, 2011, in Seoul, Republic of Korea.

Visit **www.gcgf.org** for more information.

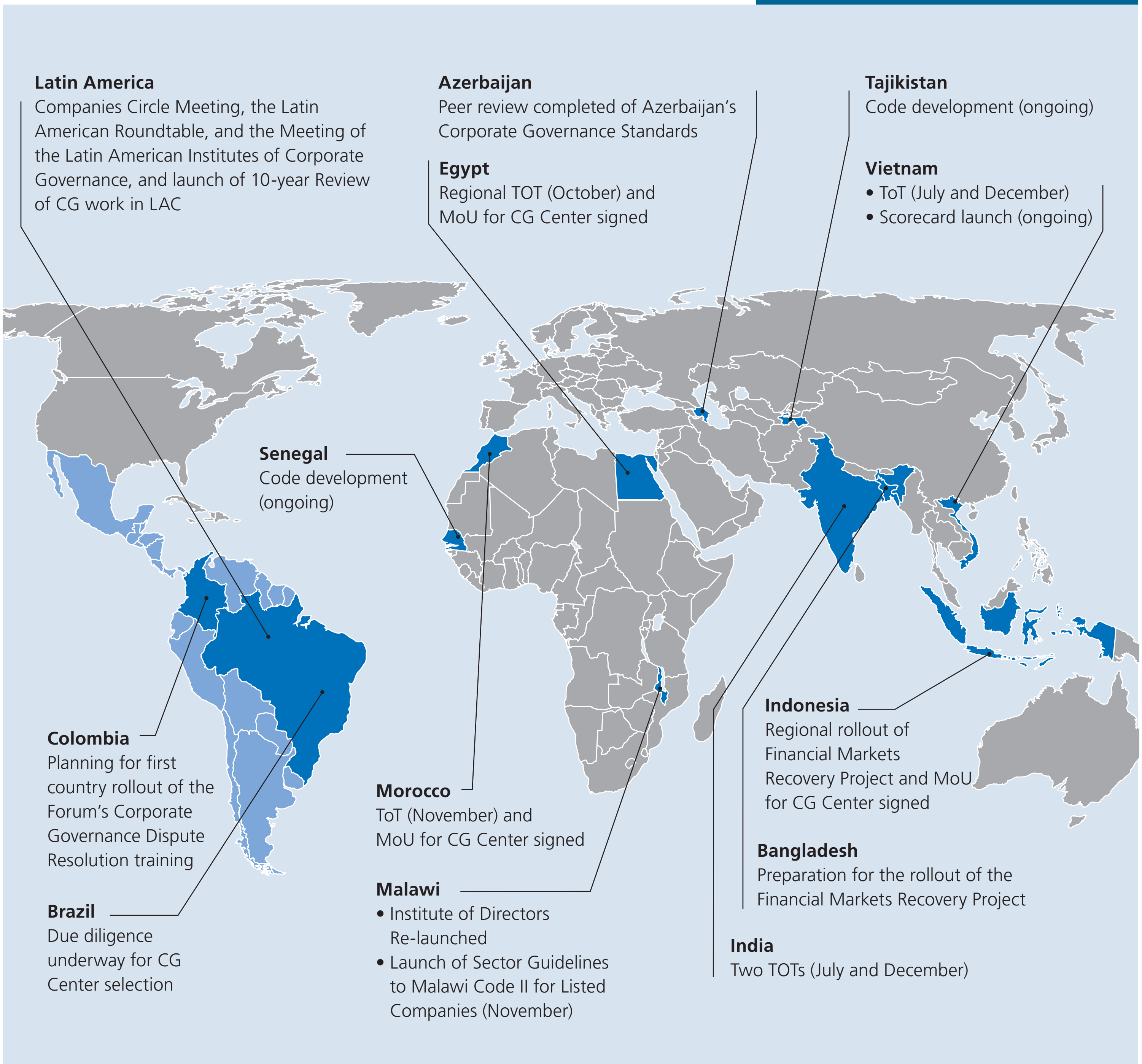
AHEAD

June 21, 2011. Practice Group workshop with Forum's Corporate Governance Centers, Cairo.

Snapshot of Forum's Global Activities, July - December 2010

In the first half of fiscal 2011, the Forum organized and supported events and workshops in more than 20 countries, which attracted more than 400 participants. Most participants provided very positive feedback. Below is a snapshot of *some* of the key events.

TOT
Board Leadership Training of Trainers. The event builds capacity of trainers who, in turn, train board directors in emerging-market and developing countries.



Forum Introduces *Governing Banks* Training Supplement

The Forum launched its new training supplement to the *Board Leadership Training Resources*, *Governing Banks*, which was developed under the FMRP to enhance bank directors' risk governance skills. This new training supplement draws extensively on the risk-management experience of Eastern European banks and financial institutions, particularly risk-governance lessons that grew out of policy responses to the global financial crisis. It was funded by the governments of Austria, Luxembourg, and the Netherlands.

As a first step to sharing these lessons and best practices globally, the Forum introduced its new training supplement in Indonesia in October 2010, in collaboration with IFC, the Indonesia Institute for Corporate Directorship (IICD), and Perbanas.

First FMRP Workshop in Indonesia in November 2010.

The materials were presented through a training-of-trainers program, comprising trainers from Indonesia, Thailand, and the Philippines. An intensive bank-director training program led by the IICD will follow in Indonesia and will later be shared with other countries in East Asia through the Institutes of Directors East Asia Network (IDEA.Net), currently chaired by Indonesia.

Indonesia is part of a phased-in global rollout strategy, with current plans to disseminate *Governing Banks* to other regions, including further capacity-building work in Eastern Europe, possibly Ukraine.

Governing Banks is a sector-specific curriculum designed to be taught in conjunction with the Forum's *Board Leadership Training Resources*. *Governing Banks* is a comprehensive module on risk governance and risk management that provides the domain-specific expertise required of bank board directors.

"Our objective is to help improve bank directors' performance and thereby mitigate and prevent a future crisis, such as that of the past two years, in which governance failures played a key role," said Gene Spiro, a Forum senior projects officer. "The combination of the governance content of our product and its innovative mode of delivery—using the most current adult-education techniques—should serve Indonesia's banking sector well."

"This initiative is a very important milestone for IICD, as we grow our organization and expand the outreach of all our training programs and advocacy services to include the banking sector, a sector that is key to the sustainability and healthy economic growth and development of any country," said Stefan S. Handoyo, Executive Director and Governance Specialist, IICD.

Perbanas is providing critical support by securing the participation of Indonesia's financial community, including bankers, regulators, financial markets experts, and corporate governance leaders. The Swiss Office for Economic Cooperation (SECO) is supporting the project.

Governing Banks provides comprehensive training material on all key aspects of board leadership, with a particular emphasis on strategy formulation, financial controls, supervision and reporting, and

> *"While Indonesia has an elaborate system of formal corporate governance rules, which in several respects may not be substantially different from OECD countries, corporate governance practices often fall short of the recommendations of OECD Principles. The challenge now lies in raising awareness and increasing effectiveness of implementation and enforcement of legislation and regulations to improve the corporate culture and practices."*
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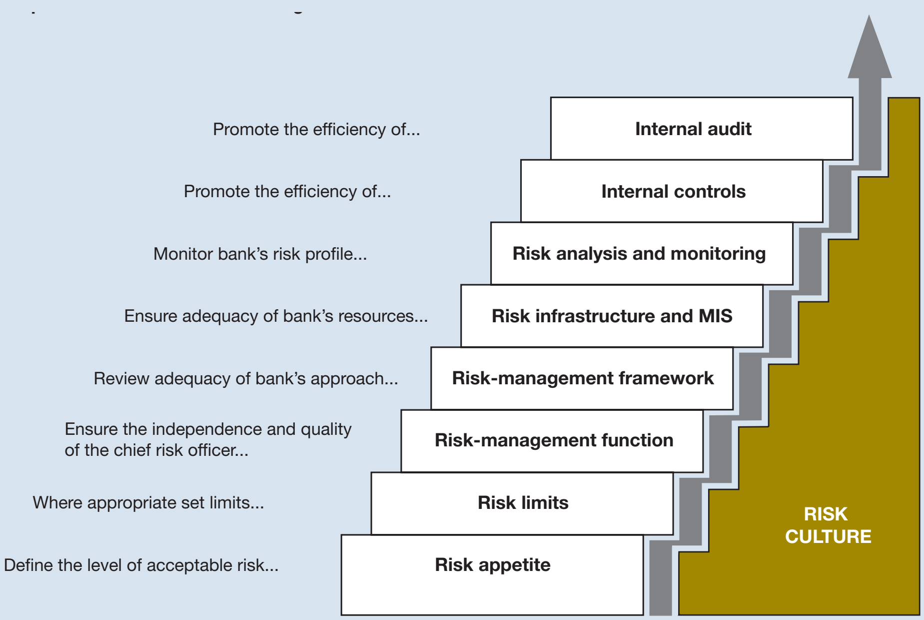
> **Report on the Observance of Standards and Codes**

Forum Trainer Mary Jo Larson shares training tips with participants at the first FMRP event.

Components of effective risk management



Source: *Governing Banks* supplement to the *Board Leadership Training Resources.*

risk management. It supplements resources already published by the Forum to support institutes of directors and corporate governance centers in training directors to be "change agents."

"*Governing Banks* is based on an extensive review of literature, international consultations, peer reviews, and interviews with directors, bankers, chief risk officers, regulators, and independent experts, who reflect perspectives from all regions," said Philip Armstrong, the Forum's head. "It builds upon our experience in corporate governance training for board directors and draws upon the Forum's thought leadership." Topics include:

- Governance of risk management
- Bank's role in the economy
- Risk and the economics of banking
- Bank regulation and oversight
- Risk management and measurement

"This is a solid beginning for our long journey in the promotion of good corporate governance, particularly in the banking sector," said Handoyo. "The real work will be coming soon in the form of well-designed training programs and advocacy efforts to have financial institutions internalize good corporate governance principles and professionalize their directors' practices."

> *"The new techniques and ideas, coupled with the views and insights of the other participants, made the activity worthwhile. The new friendships built—and old ones strengthened—contribute immensely to the achievement of the objectives set in the FMRP. As it has always been our goal to put into practice what we learn from activities such as this, I will be using the techniques and references in a series of programs we will be running."*
>
> **Jonathan Juan DC Moreno,**
> *President and CEO*
> Institute of Corporate Directors, Philippines

Spotlight: Latin America

The Forum was deeply involved in three activities in Brazil in October: the Companies Circle Meeting, the Latin American Roundtable, and the Meeting of the Latin American Institutes of Corporate Governance.

Latin American Corporate Governance Roundtable

The Latin American Corporate Governance Roundtable held its 11th annual meeting, convening policymakers, regulators, stock exchanges, corporate governance institutes, and private sector representatives from 19 countries. The roundtable was organized jointly by the OECD, IFC, and the Forum, with support from the government of Spain. It was co-hosted this year by the CVM (Brazilian Securities Commission), the IBGC, and the BM&F BOVESPA Stock Exchange. The Brazilian School of Public and Business Administration of the Getulio Vargas Foundation was also a sponsor.

"Excellent opportunity to discuss where we are and what the challenges are individually and in the region."
Macarena Vargas
Ministry of Finance, Chile

"The roundtable is the best place to discuss new improvements in corporate governance in Latin America and to understand the failures and success."
Augusto Garzón
Governance Ltd., Ecuador

"A unique opportunity to exchange experiences and knowledge on corporate governance."
Carlos Rocha Velloso
Petrobras, Brazil

Key achievements included:

- **Addressing obstacles to corporate governance-related enforcement:** The roundtable has embarked on a joint initiative with the Council of the Securities Regulators of the Americas to review and share experiences on key issues for corporate governance-related enforcement, starting with a survey of how regulators deal with enforcement related to the wrongful use of privileged information, or insider trading. A survey to combat abusive related-party transactions will follow.
- **Launching the white paper on institutional investors and corporate governance:** The roundtable considered a revised version of the *White Paper on Strengthening the Role of Institutional Investors in Latin American Corporate Governance* and agreed on further revisions, which will be incorporated before the paper is distributed by year-end 2010.
- **Enhancing board effectiveness:** The roundtable circulated a draft report featuring a mapping of laws, regulations, voluntary codes, listing requirements, and current practices relevant to eight areas important for board effectiveness: board duties; handling of conflicts of interest; board selection and composition criteria; criteria for independence; board committees; separation of the chair and chief executive officer; board risk management; and board evaluation. The roundtable agreed to further develop best practices information and recommendations on these issues, with the support of the recently established Latin American Network of Corporate Governance Institutes, featuring corporate governance institutes from 11 South and Central American countries.
- **How stock exchanges can impact corporate governance:** The roundtable considered recent stock exchange initiatives in Brazil, Ecuador, and Peru to raise the level of corporate governance in these countries and agreed to further develop analysis on the region-wide use of corporate governance indexes.

Roundtable participants share experiences on corporate governance developments in their companies and Latin America. Through the exchange of ideas, participants leave with insights that will benefit their companies and inform policy discussions.

Companies Circle

The Companies Circle is a unique initiative launched in 2005 in São Paulo, Brazil, on the recommendation of the Latin American Corporate Governance Roundtable, with support from the Forum, IFC, and the OECD. It brings together leading Latin American companies that have adopted good corporate governance practices to provide private sector input into the Roundtable's work, and to showcase good governance and how it benefits company performance.

This year, the Companies Circle meeting was special: Its membership increased for the first time since 2007, expanding to include nonlisted companies and adding eight new members.

During its meeting, the Companies Circle agreed on a new work program and established working groups to address best practices for board evaluation and the quality of information for use in decision-making at annual general meetings.

AHEAD

Companies Circle 2011 Annual Meeting, Lima, Peru.

Companies Circle members discuss a new work program and best practices for evaluating boards.

PRACTICAL GUIDE LAUNCHED IN COLOMBIA, MEXICO, PERU

The Spanish version of the *Companies Circle Practical Guide on Corporate Governance: Experiences from the Latin American Companies Circle* was launched in Lima, Peru, in June; in Mexico City in June; and, in Bogota, Colombia, in August. The Lima event attracted 83 people, the Mexico City event garnered more than 200 attendees, and the Bogota event attracted 66 participants. All three events drew participants from chambers of commerce, regulators, public companies, and private sector entities. The *Practical Guide* is the most downloaded document on the Forum's website.

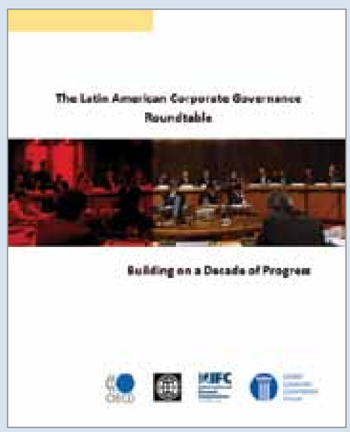
Launch of the *Companies Circle Practical Guide on Corporate Governance: Experiences from the Latin America* in Bogota in August. Forum consultant Santiago Chaher outlines the Forum's work program for the region.

"The launch of the Practical Guide *is one of the most important inputs to create a climate of conciliation within Colombian companies that would allow the next application of the 'comply or explain' model in the stock market. It also contributed to a discussion toward a cultural transformation driven by a true conviction of good corporate governance practices."*

Francisco Prada
Confecamaras, Colombia

LATIN AMERICAN INSTITUTES OF CORPORATE GOVERNANCE

The Third Meeting of the Latin American Institutes of Corporate Governance occurred in October in Rio de Janeiro. Founded at the 2009 Roundtable meeting, IGCLA has proven to be an invaluable resource for exchanging experiences. The Forum helps the network strengthen ties among the region's institutes.



The Forum and the OECD released the publication *The Latin American Corporate Governance Roundtable—Building on a Decade of Progress* at the Roundtable (English version only; a Spanish version will also be released). The booklet covers 10 years of the Roundtable's achievements and impact.

"The Forum has made a great effort in getting representatives from 11 Latin American countries together for two days in a discussion forum. Thank you for contributing to the strengthening of the region's corporate governance institutes by allowing them to share their successful experiences."

María Elena de la Fuente Tovar
Centro de Excelencia de Gobierno Corporativo
México

BRAZIL'S INSTITUTE CELEBRATES 15TH BIRTHDAY

Congratulations to our partner! IBGC celebrated its 15th birthday in October at its 11th Annual Meeting. IBGC has established itself as a model for how countries can develop corporate governance institutions.

AHEAD

Next Roundtable: Peru
(Second half of 2011)

Next launches of the *Practical Guide:*
Panama and Argentina
(Second quarter of 2011)

Fourth meeting of the Latin American Institutes of Corporate Governance (IGCLA.net): Bogota (February 2011)

Corporate Governance Dispute Resolution training: Bogota
(April 2011)

Forum Honored for Its Work on Corporate Governance Dispute Resolution

At a ceremony in London in November, the Center for Effective Dispute Resolution (CEDR)—Europe's largest alternative dispute resolution (ADR) provider and premier trainer of mediators worldwide—recognized the Forum's cutting-edge work on corporate governance dispute resolution.

According to a statement from CEDR, "IFC, through the Forum, has made an important contribution to improving the running of businesses by promoting ADR-based resolution of board-level or regulatory disputes in growing markets."

Scheduled for publication in January 2011, the Forum's fourth toolkit, *Resolving Corporate Governance Disputes*, provides practical guidance on how consensus-based alternatives to adjudication can help 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.

Governance disputes involve the board's powers and actions or its failure or refusal to act. The conflicts may arise between the board and its shareholders or between directors and executive management. They may also involve issues among the directors themselves and between the board and other stakeholders.

The toolkit is divided into three volumes. The first volume explores the rationale for applying ADR mechanisms to corporate governance disputes. The second focuses on the implementation and use of corporate governance dispute resolution mechanisms and services. The third reviews the skills required for effectively resolving corporate governance disputes and addresses the training needs of both directors and dispute resolution professionals.

A role play exercise during the pilot event with board directors from Brazil.

The Forum will be developing a partnership with CEDR to help roll out its toolkit and establish an international practice group. A pilot was already held in May with board directors of Brazilian companies. (A report on this pilot is in the Forum's summer 2010 newsletter.)

AHEAD

A pilot training for mediators will be held in Colombia in April, the first of a worldwide rollout for the toolkit.

Patrick D. Chisanga: "I Am Very Encouraged by the Progress I See in Africa."

PSAG member Patrick Daniel Chisanga is a Fellow of the Institute of Chartered Secretaries and Administrators (United Kingdom) and a Licentiate member of the Zambia Institute of Certified Accountants. He has been involved in public and corporate affairs in Zambia, the region, and worldwide for more than 30 years, serving as chief executive, chairman, and director in a wide range of organizations.

Chairman of Muchanga Investments Limited, a family-held group of companies, which he founded in 1985 in Lusaka, Zambia, Chisanga is also the managing consultant of Dynamic Concepts (Zambia) Ltd, which deals in corporate governance consulting and personal motivational development.

In 1998, he was elected chairman of the task force that drew up the institutional framework and the regulatory guidelines that led to the setting up of the Institute of Directors Zambia in 2000. From 2002 to 2004, he served as president of the institute and established a full-time secretariat, which is now self-sustaining financially. He has also been responsible for initiating the development of director training programs targeting companies and organizations in the public and private sector, and he has served as the lead consultant and presenter on the subject of corporate governance.

During his tenure, Chisanga established links with the Commonwealth Association of Corporate Governance, the Forum, the Pan African Consultative Forum on Corporate Governance, and the Institute of Directors of Southern Africa, of which he is also an active member.

In 2002, the Forum invited him to participate in the Monterrey Conference on Financing for Development, at which he presented a paper on "The Challenges on Promoting Good Corporate Governance and Fighting Corruption." Since then, he has participated in several consultations organized by the Forum and the OECD and has made numerous presentations on corporate governance in countries in the Southern Africa Region, including Mozambique, South Africa, Malawi, Zimbabwe, and Zambia, his home country.

In addition to his service on many private sector boards, Chisanga serves as a corporate governance advisor to Konkola Copper Mines, KCM, Zambia's largest Copper Mining Company.

In which specific ways has your involvement in PSAG changed you professionally and improved your ability to help advance corporate governance in your country and the region?

My PSAG involvement has enabled me to probe deeply into corporate governance—its fundamentals and its impact on businesses and organizations in many different economic environments. My various PSAG assignments within Zambia, and in the Southern African region generally, have helped me to significantly extend my professional frontiers as a consultant in corporate governance. My work is driven by my belief that, without efficient companies or business enterprises, we will not create wealth or employment. Without new investments, our companies will stagnate and collapse.

Why is PSAG a useful mechanism to advance corporate governance in Africa? And, more broadly, the Forum? What is their value?

Through PSAG, the Forum is providing companies, institutes, and governments with practical guidance. PSAG members have typically been involved in their companies in shepherding through corporate governance improvements. That experience is very persuasive, for example, to their peers worldwide, because it is not academic theory but tangible evidence of the benefits—in terms of performance and competitiveness—of good corporate governance practices.

The Forum, working through its PSAG members, has over the last four to five years grown in stature and credibility in the African region. The Forum's track record in countries such as Zambia, Malawi, and Mozambique has demonstrated that its methods and its toolkits are practical and well-tested in advancing corporate governance.

The utilization of home-grown PSAG members in Africa has made it easier to connect with local drivers of corporate governance in individual countries and to build bridges with African governments and the local captains of industry.

> *"Corporate governance is not an overnight wonder. It is a journey, and sometimes a slow journey, which will present many challenges and opportunities. Corporate governance is not about compliance to a set of rules and regulations alone; it should, preferably, be about putting in place better informed boards and improving the quality of corporate and management performance in all our economic organizations and other institutions. Corporate governance is not about quick fixes, but instead it is a methodical and patient process that must be relevant and appropriate to each country's stage of development."*
>
> **Patrick D. Chisanga**
> Remarks, June launch of the
> Institute of Directors in Malawi

What are the challenges to advancing corporate governance in Zambia and Africa? What has been your role in this work?

Significant progress has been achieved with regard to the advancement of corporate governance in emerging private sector organizations in Zambia and in many parts of Africa generally.

The huge challenge still remains with regard to state-owned enterprises (SOEs). Largely, this has to do with the role of the board of an SOE, in relation to government as shareholder. The question that often emerges is: How do directors of SOEs discharge their duties in an appropriate manner with such a powerful shareholder, and what guidance do they require?

Most government officials, including government ministers, tend to overextend their authority in matters involving SOEs over which they have oversight. This remains a big challenge for corporate governance in many African countries, including Zambia.

My role in this regard has been to work closely with national IODs to slowly extend corporate governance exposure to senior government officials in their capacities as representatives of the shareholder.

In this regard, my view is that, to date, much has been achieved, but much more remains to be done.

I believe that one of the necessary next steps in this area, is the need to begin working on a regulatory framework to guide the application of corporate governance in SOEs. This should entail the development of clear lines of demarcation between the role of government as shareholder on the one hand and the role of the board and management on the other. The establishment of performance contracts would also ensure that governments will focus on providing broad policy direction, while the board focuses on delivery.

What is the outlook for corporate governance in Zambia and Africa, and how are the Forum and PSAG making a difference in overcoming the obstacles and realizing the opportunities?

With the solid foundations that have been laid in Zambia and beyond by the Forum, the outlook for consolidating sound corporate governance practices across Africa looks bright. Commercial codes are in place, and corporate governance codes are being developed and utilized. Businesses listed on African stock markets are making major strides. Interestingly, countries that have attained higher levels of corporate governance reform—such as South Africa, Zambia, Namibia, Mauritius, Seychelles, Botswana, Mozambique, and now Malawi—are also exhibiting growing levels of investor confidence and economic growth. In the World Bank's *Doing Business 2011*, the Democratic Republic of Congo topped the list of countries "improving the most" in implementing a "doing business" reform, which in this case was dealing with construction permits. Ghana was at the top for access to credit, Swaziland for protecting investors, and Malawi for enforcing contracts.

Greater involvement of PSAG members in this process will undoubtedly lead to a continuing improvement in corporate governance practices in our markets, with the concomitant benefits for sustained economic growth.

In addition, the time is now opportune to extend the teaching of corporate governance in colleges and universities. After all, charity begins at home.

During his state visit to Ghana in July 2009, U.S. President Barack Obama had the following to say on the issue of development in Africa: "Africa's future is up to Africans." He stressed that "development depends upon good governance. That is the ingredient which has been missing…. That is the change that can unlock Africa's potential…. It is a responsibility that can only be met by Africans." These words ring true for each and every country on the African continent.

Board Effectiveness Determines Company Performance

Brigitte Bruhin of Switzerland's State Secretariat for Economic Affairs, a Forum donor, provided opening remarks for the Forum's Corporate Governance Board Leadership Training Program in July in Hanoi. An excerpt follows:

"A well-functioning board of directors is key to the performance of companies and their capacity to attract capital—and good corporate governance is key to the effective functioning of the board.

Furthermore, a sound corporate governance framework helps ensure that corporate boards effectively monitor managerial performance, use resources wisely, and achieve an adequate rate of return for shareholders, while preventing conflicts of interest. In short, good corporate governance mechanisms ensure appropriate levels of leadership, accountability, and competencies to direct and control a business on its way to prosperity.

Good corporate governance mechanisms ensure appropriate levels of leadership, accountability, and competencies to direct and control a business on its way to prosperity.

During the current economic crisis, the relevance of good corporate governance has increased sharply. In times of crisis, corporate governance emerges as a core element of the policy toolkit to restore financial stability, economic growth, and global trade. The emerging consensus about 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 reforms.

Focusing on Vietnam's situation, there is no doubt that corporate governance deserves more relevance and importance in the Vietnamese economy. Nevertheless, this concept remains quite new in Vietnam, and as far as I know, the technical term of "corporate governance" is more circumscribed in the Vietnamese vocabulary, often equated with "company management." This may be understandable. Only a decade ago, Vietnam's centrally planned economy shifted toward a more market-based economy, marking the booming growth of private shareholders.

However, the situation in Vietnam is more challenging today for almost all types of enterprises, namely state-owned and partially "equitized" (or privatized) companies: The majority of Vietnam's enterprises are not yet aware of "corporate governance standards and practices." In addition, many of them have very heterogeneous ownership structures. This calls for more transparency, more independency, and more political influence for a stronger system of checks and balances.

By following best practices on corporate governance, Vietnamese companies will be in a position to further strengthen their competitiveness and to attract new investors—national and international ones.

So, I am fully convinced that it will be more than useful for different actors and stakeholders in Vietnam to learn more about corporate governance standards and practices. Here, I am thinking not only about executive managers in the private sector, but also of public officials or government regulators (for example, in the Ministry of Justice or in the State Bank of Vietnam), about journalists who are writing about Vietnamese enterprises in newspapers, or about teachers and students at universities or business schools.

As a result of this situation, corporate governance standards and practices are now more important than ever, with a commensurate capacity to implement and enforce them effectively. We are here today to do exactly that: to discuss the particular needs and challenges for implementing corporate governance in Vietnam.

Taking into consideration that there are more than half a million enterprises in Vietnam, I believe that there is a lot to be done to establish a strong and broadly accepted corporate governance framework in this country, in areas like awareness raising, capacity building, and implementation of international best practices."

UN Global Compact: **Georg Kell**

The Forum partners with the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative, with more than 6,000 participants in more than 130 countries. The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment, and anti-corruption.

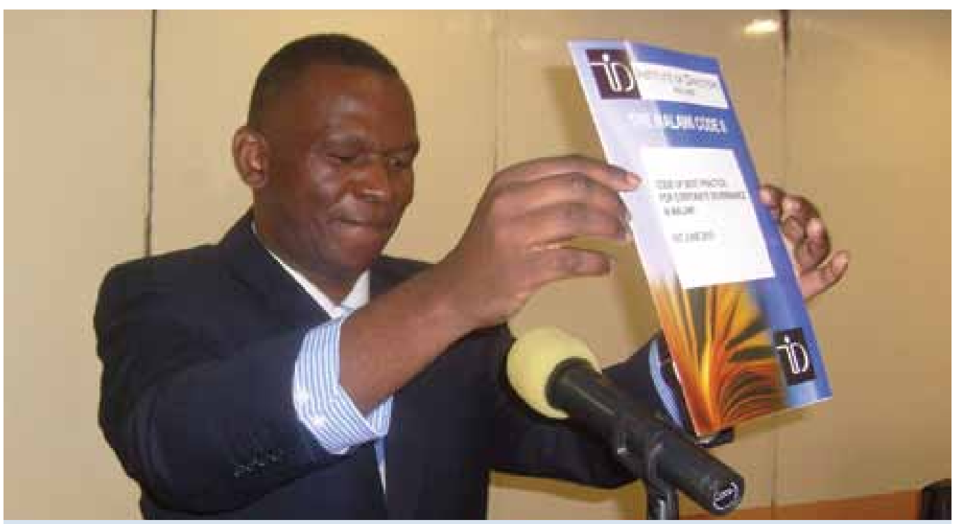
The Global Compact's key architect, Georg Kell, has served as its executive director since the initiative's launch in 2000.

"The Forum and the Global Compact share a common vision — to promote businesses that adhere to principles that increase their likelihood of surviving and performing well, all to the benefit of supporting economic development.

Our collaboration helps each of us to build on our unique and overlapping networks and to share expertise that supports our respective work. We value our work with the Forum, particularly since corporate governance is such an important component in increasing opportunities for everyone worldwide. Our joint brochure aligning both corporate governance principles and the principles of The Global Compact has received widespread acknowledgement.

The Forum recognizes the necessity for collaboration among stakeholders, the need for practical tools and resources to support businesses, and the importance of the right government policies and regulations to incentivize companies to govern themselves well.

Developing Standards:
Governance Codes Implementation and Monitoring Tools



Malawi Code II was launched in the presence of Nerbert Nyirenda, Principal Secretary for the Ministry of Industry and Trade, in June 2010.

The Forum organized an international peer review of the corporate governance codes of Azerbaijan and Tajikistan through PSAG and other international corporate governance experts. The summary of the experts' recommendations has been provided to the national corporate governance task forces, which are drafting the standards, to guide them in their work and align the text with international best practices.

In Malawi, following the Report on the Observance of Standards and Codes, a country action plan was drafted to initiate corporate governance reforms. This work included launching the Malawi "Code II of Corporate Governance" in June in the presence of Principal Secretary for the Ministry of Trade and Industry Nerbert Nyirenda and representatives of the Flanders Investment and Trade Agency, which funds this project. The National Corporate Governance Code Review Committee, with technical assistance from the Forum's consultants, completed its work and finalized Code II. In July, the Institute of Directors of Malawi and the Forum conducted awareness-raising seminars in three principal cities (Blantyre, Lilongwe, and Mzuzu).

AHEAD

December 8: High-level policy dialogue on corporate governance code oversight authorities from Europe and Emerging Markets; Brussels

February 7: Launch of the Azerbaijan Corporate Governance Standards; Baku

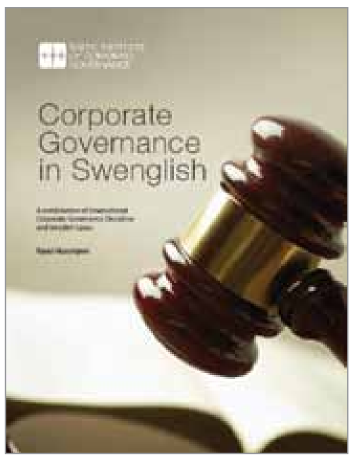
February 8–9: Regional Workshop on "Developing and Implementing Corporate Governance Codes of Best Practice"; Baku

Thought Leadership

Forum Website Visits Sharply Up

The Forum's website (www.gcgf.com) attracted record traffic this year, averaging 4,000 visitors a month, more than double last year's traffic. This growth results from the Forum's ongoing efforts to provide timely, relevant content, and the recent redesign that makes the website more dynamic and user-friendly. The top 10 countries of residence for visitors are: the United States, India, the United Kingdom, South Africa, China, the Philippines, Malaysia, Nigeria, Australia, and Pakistan.

For all Forum's publications, please visit: **www.gcgf.org/publications**



Corporate Governance in Swenglish

Written by Raoul Hasselgren, the book is an adaptation of the Forum's *Board Leadership Training Resources* and corporate governance cases in Sweden. It was produced by the Baltic Institute of Corporate Governance, a regional affiliate of the Forum. The publication covers what board directors need to know, from their strategic planning roles to the hallmarks of well-functioning boards.

Lessons Learned

Business Reporting Beyond Numbers—Looking for the Good, the Bad, and the Ugly in Corporate Governance

To cover the workings of a modern enterprise effectively, journalists need to understand how it is governed—and how various issues under the corporate governance umbrella fit together and affect the company's performance. This *Lessons Learned* helps business journalists track down corporate governance stories and ask the right questions to uncover critical information and explain complex subjects to the public.

Private Sector Opinion

DIVERSITY AT THE HEAD TABLE

Bringing Complementary Skills and Experiences to the Board

19 | A Global Corporate Governance Forum Publication

Dr. Yılmaz Argüden

A well-functioning board of directors needs diversity of experience and perspectives. If everybody thinks the same, then there is no need for a board; one individual would suffice! Diversity for its own sake, however, is not an improvement in governance; what matters is the combination of complementary skills and experiences that members bring to the table to better address the challenges the company is likely to face.

Foreword

What caused the crisis? Many factors contributed, but poor governance certainly played a part—there is general agreement on that. So, what caused poor governance? People have spent countless hours considering this question, and the determination to improve governance has intensified since the crisis. As Dr. Yılmaz Argüden brings out, two distinct approaches have emerged: external, through regulation; and internal, through strengthening the integrity of company boards.

Dr. Argüden makes the case for the latter approach, noting that regulation frequently is not the answer. Companies vary widely in their business, customers, and stakeholders, and they all require different types of people—with different skills and experiences—to manage them. Companies need the freedom to be innovative and to take measured risks. In most cases, it is better for the boards to determine what will be effective for them than to have structures and processes imposed on them by regulation.[1]

As Dr. Argüden has written previously,[2] you need the right people, team, and processes in place to make the best decisions. In this paper, he promotes diversity on boards as a remedy for the poor governance that—prior to the

[1] Even though, ironically, in some parts of the world, such as Norway and Spain, regulation has helped improve diversity by requiring a quota of women on boards.

[2] Yılmaz Argüden, *A Corporate Governence Model: Building Responsible Boards and Sustainable Businesses*, Private Sector Opinion Issue #17, Global Corporate Governance Forum.

The Global Corporate Governance Forum is the leading knowledge and capacity-building platform dedicated to corporate governance reform in emerging markets and developing countries. The Forum offers a unique collection of expertise, experiences, and solutions to key corporate governance issues from developed and developing countries.

The Forum's mandate is to promote the private sector as an engine of growth, reduce the vulnerability of developing and emerging markets to financial crisis, and provide incentives for corporations to invest and perform efficiently in a transparent, sustainable, and socially responsible manner. In doing so, the Forum partners with international, regional, and local institutions, drawing on its network of global private sector leaders.

The Forum is a multi-donor trust fund facility located within IFC, co-founded in 1999 by the World Bank and the Organisation for Economic Co-operation and Development (OECD).

Private Sector Opinion

Diversity at the Head Table: Bringing Complementary Skills and Experiences to the Board

PSAG member Dr. Yılmaz Argüden outlines the case for why a well-functioning board of directors needs diversity of experience and perspectives. "If everybody thinks the same, then there is no need for a board; one individual would suffice!" Diversity for its own sake, however, is not an improvement in governance; what matters is the combination of complementary skills and experiences that members bring to the table to better address the challenges the company is likely to face. Dr. Argüden is chairman of ARGE Consulting and chairman of Rothschild investment bank in Turkey. He is a board member for numerous companies in different jurisdictions, an author, a columnist, and an adjunct professor of strategy at the Bosphorus and Koç Universities.

How Can Financial Supervisors Improve the Effectiveness of Corporate Governance?

Financial supervisors have an important stake in ensuring sound corporate governance as a strong underpinning for effective supervision. This publication suggests measures that financial supervisors can take to improve governance in regulated financial institutions. As the authors John Palmer and Chang Su Hoong observe, "weak and ineffective corporate governance in systemically important financial institutions was an important contributing factor" to the economic crisis that began in 2007. As a result of these weaknesses, financial institutions were allowed, even encouraged, by their boards to take excessive risks that included unprecedented levels of leverage and high-risk business strategies. Palmer is chairman of the Toronto Leadership Centre and a principal of Regulatory Professionals Pte. Ltd., a Singapore-based international consultancy. Hoong is a principal of Regulatory Professionals and a former financial supervisor and department head at the Monetary Authority of Singapore.

Keynote Address to IE Business School at the Fifth Annual Social Responsibility Forum: Leading to The Next Big Thing

Forum head Phil Armstrong outlined a practical business perspective for integrating our social responsibility into traditional business incentives for value creation and profit maximization with an emphasis on the need for greater attention to be paid by boards and directors to the value systems and ethics by which their companies are governed. He also explored some innovative concepts and ideas currently circulating to address the many shortcomings of the financial markets and global economic system.

Good Governance: Key to Sustainability

PSAG member Jan-Olaf Willums outlined why good corporate governance principles are essential to a company's sustainable growth at the Dubai Chamber conference "Good Governance Matters" in October 2010.

Willums began by defining corporate social responsibility as a structured way to handle society's challenges. "CSR involves increased efforts to align corporate goals with those of society. CSR implies profitability being judged by a longer time frame."

The new generation in corporate governance's evolution is "governance for sustainability." The "entity" is an integral part of the full value-chain of complex "partnerships" for which oversight, including performance measurement, is needed. Boards need to reflect different stakeholder interests and develop competencies beyond industry knowledge to demonstrated experience in being receptive to new agendas.

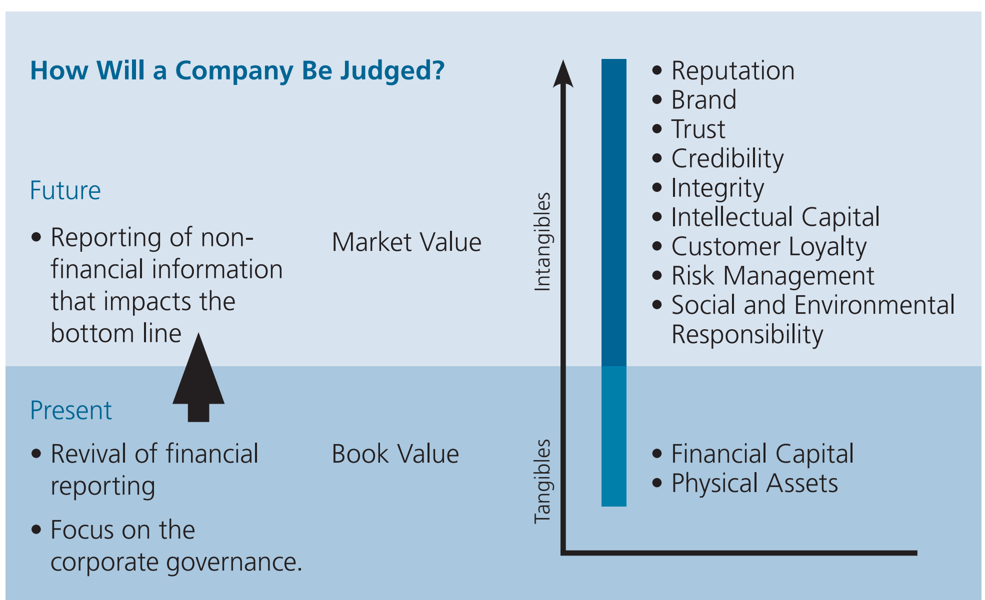
AHEAD

Focus: Corporate Governance and Firm Performance in India, by Pratip Kar

Private Sector Opinion: More Power for Shareholders—Does It Undermine Board Stewardship? By Peter Dey

Lessons Learned: Financial Markets Recovery Project

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



Source: Presentation by Jan-Olaf Willums.

Research Updates

Is Risk Regulation the Most Important Way to Guard against Another Financial Crisis?

University of Michigan Law School Professor Nicholas Calcina Howson ("When 'Good' Corporate Governance Makes 'Bad' [Financial] Firms: The Global Crisis and the Limits of Private Law") examines the argument that "bad" corporate governance was one cause of the global financial crisis. He puts forth the "counter-intuitive argument that, insofar as 'good' corporate governance made directors and managers responsive to the shareholders' interest, it may have caused those same directors and managers to take on unsustainable risk so as to increase current profits and support the public stock price valuation. This means that 'good' corporate governance is not really a solution to remedying or protecting against the next crisis, and indicates why long-term, systemic risk-regarding, prudential regulation is." Available at: www.ssrn.com

Corporate Governance Reforms Are Key in Attracting International Capital

Researcher Yao Lu (affiliated with the University of Michigan - Stephen M. Ross School of Business and Tsinghua University) examines how investor protections through corporate governance influence where international capital flows. Investors "cherry pick" the countries to which they allocate capital, based on the strength of investor protections. After countries undertake corporate governance reforms, they are more likely to draw in foreign investments. "The study's results highlight the importance of investor protection in guiding international capital flows not only across countries, but also across firms within a country."

"Corporate Governance Reforms and Firm-Level Allocation of International Capital Flows." August 2010. Available at: www.ssrn.com.

The State of Corporate Governance Research

Harvard Law Professor Lucian A. Bebchuk and Ohio State University Professor Michael S. Weisbach review the state of corporate governance research for seven important areas: shareholders and shareholder activism (the actions that shareholders may take to protect their interests); corporate directors; executives and their compensation; companies without controlling shareholders; companies with such shareholders; international corporate governance, including cross-country comparisons and cross-border investments by foreign investors; and the political economy of corporate governance. One study among many the authors survey confirms that "governance problems impede firms' ability to attract capital from foreign investors even more than it impedes their ability to raise capital domestically. Poor governance can thus limit capital flows and the integration of capital markets in the global economy. These findings are especially important given that some of the countries whose investor protection is especially weak are also those countries for whom capital investment from abroad is especially significant. Thus, governance reforms in such countries might produce considerable benefits for their economies." "The State of Corporate Governance Research," *Review of Financial Studies*. 2010. Available at: www.ssrn.com.

Earnings Quality Improves after Malaysia's Adoption of Corporate Governance Code

Victoria University of Wellington Professors Wan Adibah Wan Ismail, Keitha L. Dunstan, and Tony Van Zijl "examine the association between corporate governance mechanisms and earnings quality after the implementation of the Malaysian Code of Corporate Governance in 2001. Using 1,625 firm-year observations during the period 2003–2007, we tested whether corporate governance variables are significant determinants of earnings quality.... We found that (1) size of the board of directors and (2) size of the audit committee, are positively associated with the level of earnings quality. This indicates that large boards of directors and audit committees are more effective in performing their governing roles than smaller boards and audit committees. However, while the monitoring effectiveness of audit committees is consistent throughout the sample, the effectiveness of board governance is limited to government-linked and state-owned companies. Our findings suggest that adopting the code without considering the local institutional framework may not be efficient. As this study was conducted on a large sample of firms over a reasonable timeframe, the results capture a strong picture of the association between earnings quality and corporate governance in Malaysia."

"Earnings Quality and Corporate Governance Following the Implementation of Malaysian Code of Corporate Governance." December 2009. Available at: www.ssrn.com.

Analyst Following and Corporate Governance: Emerging-Market Evidence

Minna Yu examines the relationship between emerging-markets companies and the extent to which financial analysts follow those companies, using a sample of 753 emerging-market companies. The study finds that "the effectiveness of corporate governance has a positive impact on the level of analyst following. Further analyses indicate that this positive relation is concentrated in the countries with a common law tradition.... By improving corporate governance at the firm level, companies can significantly improve their information environments. The findings of this paper also have important implications for standard setters and regulators in emerging economies by shedding light on the importance of requesting firms to have good corporate governance mechanisms in place, particularly in countries with relatively strong investor protection."

"Analyst Following and Corporate Governance: Emerging-Market Evidence." *Accounting Research Journal*. July 2010. Available at: www.emeraldinsight.com.

High-Profile Failures Demonstrate Necessity of Succession Planning

By Philip Armstrong
Head, Global Corporate Governance Forum

Succession planning is a "must do" for companies and one demonstration of how well they are governed.

A "fly by the seat of your pants" approach means a board has abdicated one of its most crucial responsibilities. A leadership vacuum can undermine a company's reputation, weaken shareholders' trust, disrupt continuity essential to achieving long-term goals, generate new risks, and create vulnerabilities that competitors can quickly use ruthlessly to their own advantage.

The consequences also may extend long after the bitter fight to choose a new leader. The incoming CEO may lack unified support to exercise his or her vision and full authority. The opportunity to groom senior executives for future top roles may also be missed.

A series of recent high-profile cases illustrate how many companies—family-owned and public—fail to put into place mechanisms to ensure a smooth transition for key leadership changes.

We've seen examples of poor or inadequate succession plans to address the abrupt and planned departures of CEOs, or the struggles of family-owned businesses to name a new generation of leaders to replace retiring patriarchs and matriarchs.

Early in 2010, HSBC's Executive Chairman Stephen Green quit to join U.K. Prime Minister David Cameron's government, triggering a chain reaction of mishaps as the person seemingly destined for the job was passed over and the finance director elevated to the slot. The departures and personnel shifts left the board confronted with a complex choreography of appointing several positions, settling severance arrangements, and regaining investors' confidence to reverse the share price's fall in value amid the highly publicized leadership scramble.

India's Tata Group twice postponed a decision on who should follow its long-time leader Ratan Tata. In August, though, the board formed a special committee to find a successor before Tata turns 75 in 2012, when he must retire under company rules. The committee's decision has global relevance, since roughly two-thirds of the salt-to-steel conglomerate's revenue is generated overseas.

The extent to which inadequate succession planning is a problem is suggested by recent research conducted by the executive search firm Heidrick & Struggles and Stanford University's Rock Center for Corporate Governance. After surveying 140 CEOs and board directors for North American public and private companies, the study found that "more than half of companies today cannot immediately name a successor to their CEO should the need arise."

The National Association of Corporate Directors 2008 Public Company Governance Survey found that board members rate CEO succession as one of their most crucial responsibilities, as well as one of the areas where they are least effective. Only 11 percent said their companies were highly effective in this area, while 51 percent described their efforts as somewhat or less than effective.

Obstacles to succession planning include egos, poor governance practices, political dynamics, and family matriarchs and patriarchs without heirs.

Some CEOs and chairmen believe it is difficult to exercise their leadership when their heir apparent is on the sidelines and actively engaged in reviewing their work. Some even suggest that they are considered "lame ducks" the moment the succession process begins.

Board directors who have strong personal relationships with their CEOs and chairmen may block succession discussions, fearing they are personally attacking their leader or that such deliberations may generate negative news stories that lead to investor, employee, and other stakeholder unease.

Other reasons include, as a *Bloomberg Businessweek* article points out, "lack of a well-defined process; poorly defined 'ownership' of succession planning responsibilities; scarcity of internal, CEO-ready talent; and the inability to assess objectively any potential internal candidates."

Regardless of the reasons, good governance means having in place a sound, durable approach to succession planning to avoid the potentially costly and reputation-damaging when a company meanders without leadership and its attendant vision.

Selection Criteria

- Vision and strategy
- Relationships and communications
- Motivation
- Business
- Fit to situation

Source: Russell Reynolds

What is needed then?

Start with a succession plan that focuses on the process and decision makers. This plan should consider emergency situations and long-term transitions in senior management. Broadening participation to include key stakeholders can improve ownership of succession decisions and provide support when new appointments are announced. The roster of potential candidates, too, may be stronger.

Before launching into planning, organize a board retreat to improve directors' knowledge about succession processes, using relevant case studies to demonstrate how smooth transitions benefit companies' performance and bad ones create problems that may be difficult to solve. Pull in an outside expert to facilitate the retreat that addresses, among other things, process, selection criteria in step with the company's vision and mission, a leadership needs assessment, and internal and external communications strategies. Establishing a benchmark is particularly important to focus the process and ensure that the selection criteria carefully aligns with the company's projected future plans and business strategy.

Once the written succession plan is approved, communicate that process internally *and* externally to demonstrate the board's commitment to prevent any destabilizing effects from senior leadership changes, whether unanticipated or deliberate.

The board committee responsible for overseeing succession, whether it is an ad hoc panel or the governance or nominations committee, should meet regularly to ensure its selection criteria remain relevant and to maintain a roster of potential candidates who have the skills, experience, and vision commensurate with the company's evolution. An outside consultant may provide counsel on potential candidates, ways to nurture promising internal candidates identified to possibly assume senior leadership roles, and independent guidance on handling the sensitivities often associated with this process.

When a resignation or retirement is announced, the board should ensure that it has a communications strategy in place to address rumors of potential candidates, prevent internal leaks, speak with a unified voice that is "on message," and ensure that key stakeholders are well apprised of the process. Given that news of a potential CEO, chairman, or CFO likely constitutes "material" information, the board should work closely with the general counsel's or corporate secretary's office to ensure that any information disclosures regarding succession comply with securities regulations or stock exchange requirements where it is a publicly quoted company.

There is a wealth of literature on succession planning and ample case studies to inform a board's work in this area. Careful preparation before, during, and after a leadership change will demonstrate the board's dedication to its shareholders and other stakeholders while sending another signal that good corporate governance principles drive board deliberations and actions in an objective and strategic way.

Learn More

Dayton Ogden and John Wood, "Succession Planning: A Board Imperative," *Bloomberg Businessweek*, March 25, 2008.

Forum, *Corporate Governance Board Leadership Training Resources*.

Mark Nadler, Carlos Rivero, Steve Krupp, and Richard Hossack, "Overcoming the Obstacles to CEO Succession Planning," Oliver Wyman, 2008.

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Stephen A. Miles and Nathan Bennett, "Best Practices in Succession Planning," Forbes.com, November 9, 2007.

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