



The Global Corporate
Governance Forum

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*“The Responsibilities of Boards of Directors and the
Role of Stakeholders in Corporate Governance”*

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*The Role of Director Training Organisations in Promoting
Director Professionalism
Chris Pierce, Institute of Directors, UK*

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There are many forces driving corporate governance reform throughout the world. The key drivers appear to be:

- Corporate Governance is being perceived as a source of superior organization performance leading to a competitive edge

In competitive and turbulent environments boards in companies of every size are required to develop strategies and exploit business opportunities. The method by which a business manages and controls its activities is increasingly being seen as a key element if the company is to succeed.

- There is a desire of directors themselves to become more professional.

This may be attributed to:

Legal and code compliance. The corporate laws and codes in most countries are increasing in complexity. In addition the penalties for breaking the law and codes are becoming ever more onerous. Most directors express a strong desire to work within the law and avoid the possibility of being sued by aggrieved third parties or being fined by the courts. It is essential that they keep up to date with legal changes.

Stakeholder expectations and responsibilities.

Investors

Key findings from the McKinsey & Company Global Investor Opinion Survey (July 2002) found that corporate governance remains a great concern for institutional investors. According to the report, investors still put corporate governance on par with financial indicators when evaluating investment decisions. An overwhelming majority of investors are prepared to pay a premium for companies exhibiting high governance standards. The survey identified that institutional investors would pay an average premium for a well governed company of:

- 12 – 14 % in North America and Western Europe;
- 20 – 25 % in Asia and Latin America; and
- Over 30% in Eastern Europe and Africa.

In addition, when investors were asked to identify governance reform priorities for companies, the following four activities came top of the list:

1. More timely, broad disclosure;
2. More independent boards;
3. More effective board practices;

4. More effective performance related director / management compensation.

Stock Exchanges

The transparency of board decision processes is of growing importance to the listing authorities of stock exchanges. As the global flow of capital increases, so stock exchanges must compete for listings and capital. Accordingly, listed directors are re-asserting the key corporate governance values of:

- Accountability;
- Probity;
- Transparency.

International Bodies

The World Bank and International Monetary Fund have been publishing Reports on the Observance of Standards and Codes (ROSCs) for many different countries (mainly developing countries). In all of the reports they have recommended that for a country to improve its corporate governance the professionalism of directors should be enhanced and that an Institute of Directors should be established.

THE FOUR KEY TASKS OF THE BOARD

There are four key tasks of the board:

1. establishing the purpose, vision and values;
2. setting strategy and structure;
3. delegating to management;
4. Exercising accountability to shareholders and being responsible to relevant stakeholders.

Accountability	Purpose, vision and values
Delegating to management	Strategy and structure

1. Outward-looking, future-orientated

Foresight focuses on determining the organisation's purpose, vision and values. These guide the direction and set the pace for its current operations and future development.

2. Inward-looking, future-orientated

Setting strategy and structure involves:

- Reviewing opportunities threats and risks in the external environment and evaluating their likely effect on the business;
- Assessing current and future strengths, weaknesses and risks within the organisation;
- Selecting the strategic options to pursue and deciding how to implement them;
- Establishing plans;
- Making sure the organisation's structure and resources can support the strategy.

3. Inward-looking, past and present-orientated

Oversight and delegating to management involve:

- Delegating authority to management to implement the policies, strategies and business plans;
- Setting the criteria, and monitoring and evaluating the implementation;
- Communicating with senior management.

4. Outward-looking, past and present-orientated

Exercising accountability to shareholders and being responsible to relevant stakeholders involve:

- Ensuring that communications both to and from shareholders and stakeholders are effective;
- Understanding and taking into account the interests of shareholders and stakeholders;
- Promoting the good will and support of the shareholders and stakeholders.

The attributes of a profession

The following are attributes of a profession:

- • The Existence of a Bounded and Prescribed Body of Knowledge and Skills

A profession requires that specific knowledge and skills associated with the professional activity have been identified and are of a high order. There is also an associated responsibility to disseminate this knowledge and expertise.

- • A Group of People with Distinct and Identifiable Knowledge and Capabilities Recognized at National and International Level

A profession must comprise people with distinct and identifiable knowledge and capabilities that require considerable study and practice to acquire. As a result of their

expertise they are frequently involved in a consultative role by law making and regulatory bodies at both national and supra national levels.

Professions are valued because of their independence and are not usually seen as taking political positions on issues or being a lobby group protecting the interests of their members.

- • Training, Education and Development

A profession requires the provision of training, education and development as a prerequisite to practice. In addition, professionals are required to maintain and update their capabilities through continuing professional development (see below).

- • A Professional Entrance Examination

Professions require some form of entry restriction which is specified and tested in an objective manner.

- • A Code of Conduct, Professional Standards and Self Regulation

Within a profession a regulating body or institution is responsible for developing professional standards. Members are expected to conform when applying for membership, and continue to conform whilst members of the profession, to levels of knowledge, skill and integrity prescribed by the professional body. Professions have a responsibility to maintain the professional standards of entrants into the profession and enforce regulations and standards. Codes of conduct, regulations and standards may involve the necessity to subordinate personal interests and feelings to the interests of collective membership and professional regulations and non compliance can involve expulsion from the profession.

- • Excellence and Public Confidence

Frequently professionalism is associated with pride and commitment to the achievement of excellence. This attribute is necessary to maintain public confidence in the capabilities of the members of the profession.

- • Continuing Professional Development

All professionals should be involved in the systematic maintenance, improvement and broadening of knowledge, understanding and skills throughout their working life.

Current global situation

There are currently IoDs in over 30 countries that include:

- Australia
- Belgium
- Botswana
- Canada
- Czech Republic
- Fiji
- France
- Ghana
- Indonesia
- Ireland
- Hong Kong
- Japan

- Korea
- Namibia
- Nigeria
- New Zealand
- Papua New Guinea
- Philippines
- Peru
- Poland
- Russia
- Singapore
- South Africa
- Thailand
- Trinidad and Tobago
- UK
- USA
- Venezuela
- Zambia
- Zimbabwe

In addition Corporate Governance Associations with a significant director membership exist in at least 8 countries:

- Argentina
- Brazil
- Colombia
- Jamaica
- Kenya
- Malaysia
- Mexico
- Turkey

There are many global activities currently taking place. I list some of the ones that I feel to be most important.

The World Bank Group toolkit

The Global Corporate Governance Forum within the World Bank commissioned Kerrie Waring and I to write a Toolkit to provide advice to countries wishing to set up a Directors Training Organisation. The World Bank will publish this in November 2003. The toolkit is approximately 250 pages long and provides useful information in forming a professional organization.

Organizations fostering director professionalism

It is noted that many different organizations are assisting in the development of director training organizations. Examples include:

- Chambers of Commerce e.g. Colombia Confecamaras
- Stock Exchanges e.g. Singapore
- Educational establishments e.g. Sabanci University in Turkey
- Professional Bodies e.g. Canada
- Institutes of Directors e.g. Australian Institute of Corporate Directors, IoD, Southern Africa IoD.

Umbrella organizations

Certain regional umbrella organizations are being developed to coordinate the development of director training organizations in countries within the region. The leading organization is the Latin American Association of Corporate Governance that comprises all of the IoDs and Corporate Governance in Latin America (from Mexico to Chile). This Association was formed at a Director Training Programme at Yale University in August of this year. Other umbrella organizations are planned to be formed in the coming months ahead.

Conclusion

2004 is forecasted to be an eventful year for everyone working in the field of corporate governance!

Further reading

IoD (2001) Standards of the Board, London, IoD.

Pierce C (2001) The Effective Director, London, Kogan Page