

# corporate governance

*better companies, better societies*

## For the Public Good:

### Pro Bono Work of Private Sector Advisors Advances Corporate Governance Initiatives

To advance corporate governance in emerging market and developing countries, the Global Corporate Governance Forum mobilizes its unique and extensive network of business leaders, the Private Sector Advisory Group.

PSAG members donate their time to provide counsel to countries developing corporate governance codes or to help boards implement reforms to become more effective in defining, implementing, and monitoring a company's goals and ensuring accountability to stakeholders. The volunteers' roles vary widely, from providing expertise, to conducting a peer review, to monitoring and evaluating performance. The value of PSAG members' pro bono work exceeds an estimated one-million US dollars for fiscal 2009.

"We are driven by a personal and professional commitment to advance the public good," said Peter Dey, PSAG's chairman and chairman of the investment firm Paradigm Capital, Inc. in Canada. "We can directly help countries and business leaders take the necessary steps that result in better-run companies. Ultimately, society is the winner when companies live by corporate governance best practices, operating in shareholders' best interests."

Patrick Zurstrassen, chairman of the Luxembourg Institute of Directors, equally agrees that he and fellow PSAG members are united by a "sense of duty." The commitment among PSAG members is driven by their "shared view that corporate governance is

essential in economic development, whether it is for private, state-owned or public companies and cooperatives."

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. By sharing what they've learned, they help those wanting to embrace corporate governance find ways to overcome obstacles and achieve progress.

"PSAG members are unique in the breadth and depth of their experience and in their approach as volunteer advisors," said Teresa Barger, CEO of a U.S.-based private equity investor in the emerging markets, Cartica Capital. "We've seen what has worked and what hasn't, so we can help explain the most direct and effective way forward, one that avoids the common mistakes we ourselves have experienced or witnessed. Those we work with have a greater likelihood of achieving results more readily."



Training session in Brazil.



The Global Corporate Governance Forum is an International Finance Corporation (IFC) multi-donor trust fund facility. The Forum was co-founded by the World Bank and the Organisation for Economic Co-operation and Development (OECD) in 1999.

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 crisis, and provide incentives for 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.

Donors to the Forum include the IFC and the Governments of Canada, France, Luxembourg, the Netherlands, Norway, and Switzerland.

“Attracting capital in emerging markets calls for the urgent need to adopt best practices in corporate governance,” said S.D. Shibulal, chief operating officer and co-founder of Infosys Technologies Ltd., India. “PSAG members expedite this process and their credibility helps to build trust and reduce skepticism.”

Since its founding, PSAG has been involved in many activities led or supported by the Forum. (See box summarizing activities for fiscal 2009.) Their involvement includes:

- Helping countries in the Middle East and North Africa region and elsewhere (e.g., Jamaica, the Maldives, Bulgaria, Azerbaijan) draft and conduct peer reviews of corporate governance codes, implement the codes, and then monitor their use and impact through scorecards and other instruments
- Supporting training programs by corporate governance institutes, directors’ organizations, and others to strengthen board directors’ competencies and enhance leadership skills needed to build business capacity and promote economic growth
- Participating in the Latin American Corporate Governance Roundtable to exchange experiences with senior policy makers, regulators, and market participants
- Contributing to Forum publications on such topics as strengthening boards in the context of the financial crisis, evaluating board performance, implementing a rigorous audit process, and developing whistleblower policies
- Reviewing the Forum’s toolkits on building directors’ training organizations, formulating corporate governance codes, developing board leadership skills, utilizing alternative dispute resolution mechanisms (forthcoming), and training journalists to report effectively on corporate governance issues (forthcoming)
- Guiding the implementation of corporate governance codes and their supervision through scorecards and other instruments for measuring adherence to internally accepted standards



S.D. Shibulal speaking at a Forum-cosponsored event in India in 2008.

## Why private sector involvement makes the difference

The private sector is an engine of innovation, investment, and growth, observes PSAG member Olli V. Virtanen with the Finnish Association of Professional Board Members.

“Jobs are the best way out of poverty, and nine out of ten jobs in the developing world are in the private sector,” Virtanen said, noting a World Bank study estimating that 80 percent of poverty reduction is due to economic growth.

“Creating the right conditions for businesses to expand and grow is essential if we are to alleviate poverty. Ensuring that there are effective codes and best practices for corporate governance is an important component in creating those conditions. The more one learns from a smorgasbord of development experiences, the easier it is to choose guidelines that suit a particular country and its economy best.”

In providing counsel, Virtanen says he is often asked the question about how countries can emulate experiences in Nordic countries, which are “relatively small and economically advanced. That makes their experience attractive to learn about.”

Bistra Boeva observes that, “There’s a well-known expression, ‘Where you can go next depends on where you have been in the past.’” Boeva is a professor with the Center for Corporate Governance at the University for National and World Economic Studies in Sofia and co-chair of the Task Force for Development of National Corporate Governance Code in Bulgaria. She is also a member of the prestigious European Corporate Governance Forum that advises the EU Commission on corporate governance matters.

“People need theory, but at the same time they need real help, real assistance, about how to do corporate governance, how to nominate the board of directors, how to present their annual financial report in order to satisfy various customers, not only the tax authorities and the Ministry of Finance. In this process, insight from the private sector is invaluable; PSAG members provide that insight.”

Mervyn King, Professor Extraordinaire of Corporate Citizenship at the University of South Africa and chairman of the committee which produced the King Reports on Corporate Governance, stresses the point that the relationship between corporate governance and the private sector is inextricably linked.

“Unless the governance of private sector companies is good (which itself needs definition) on a qualitative basis, the private sector will not succeed. Mindless compliance with rules, or with the opinions of people such as rating agencies, I believe, was one of the main causes of the recent systemic risk to the banking sector worldwide,” observes King.

## PRIVATE SECTOR OPINION

PSAG members contribute to the Forum's publication series, *Private Sector Opinion*. Recent contributions include:

### WHERE WERE THE DIRECTORS?

**Foreword:** Jon Lukomnik, *Managing Partner, Sinclair Capital LLC*

**Content:** PSAG Member David Beatty, *Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness at the Rotman School of Management University, Toronto; Founding CEO of the Canadian Coalition for Good Governance*

Lukomnik summarizes the value of Beatty's proposals as boards are questioned for their failures in risk management and other areas. Beatty proposes a series of concrete methods to improve boards' effectiveness in the context of the current financial crisis. These include: equipping boards with adequate expertise to deal with today's complex issues; managing directors' time more efficiently so as to allow strategic planning; and, bridging the expertise chasm between managers and directors.

### CRASHES, BAILOUTS, REGULATIONS

**Foreword:** PSAG Member Mark Mobius, *President of Templeton Emerging Markets Fund, Inc.*

**Contents:** Pratip Kar, *Dean of Finance and Corporate Governance, Tata Management Training Center*

Mobius outlines why sound corporate governance pays, leading to better management and more prudent allocation of a company's resources.

In the context of India, Kar reassesses the existing views on financial markets, the role of financial institutions, market structure, financial products and, above all, the regulatory architecture in the current financial crisis. The article indicates that there is a strong relationship between sound corporate governance and strong corporate performance, and the crisis also has shown that organizations, especially in the financial services sector, need to be founded on an ethical value system if they are to be successful in the long run and provide the necessary economic stability for sustainable growth.

### DEVELOPING AND IMPLEMENTING CORPORATE GOVERNANCE CODES

**Foreword:** Stilpon Nestor, *Managing Director of Nestor Advisors Ltd.; Former Head of Corporate Governance at the OECD*

**Contents:** PSAG Member Simon C.Y. Wong, *Adjunct Professor of Law, Northwestern University School of Law; Former Head of Corporate Governance, Barclays Global Investors Limited*

Nestor stresses the prerequisites that achieve

success, including a code's clarity, the existence of legal underpinning, and local ownership of the code's development, implementation, and evaluation processes.

Wong addresses the key advantage of a code versus a mandatory approach to regulating corporate governance in three aspects: dissemination, flexibility of corporate practice, and transparency. He cautions against code "transplanting" and calls for well-thought-through processes that take account of the economic and legal environment that shapes firm structure and behavior.

### GOVERNANCE SCORECARDS AS TOOLS FOR BREAKTHROUGH RESULTS

**Foreword:** PSAG Deputy Chairman Christian Strenger, *Member of the German Government Commission on Corporate Governance; Director, DWS Investment GmbH*

**Contents:** PSAG Member Jesus P. Estanislao, *Chairman of the Institute of Corporate Directors in the Philippines; President of the Institute for Solidarity in Asia*

Strenger notes the increasing popularity of scorecards for conducting a systematic analysis of a company's governance structure.

Estanislao introduces the usage of scorecard tools to help companies achieve their governance improvements. It will help to steadily improve company performance and generate above-market returns for investors.

### BOARD PERFORMANCE EVALUATION

**Foreword:** PSAG Member David Beatty, *Conway Director of the Clarkson Centre for Business Ethics and Board Effectiveness at the Rotman School of Management University, Toronto; Founding CEO of the Canadian Coalition for Good Governance*

**Contents:** Simon Osborne FCIS, *Solicitor, Director, ICSA Board Performance Unit.*

Beatty notes that, from his experience with more than 30 boards in four countries, committing to annual evaluations is a powerful change agent.

Osborne introduces a comprehensive examination of the various processes for implementing board performance evaluation and the most insightful questions to include in such an exercise.

These publications are all available on the Forum's Website: [www.GCGF.org](http://www.GCGF.org).



In Africa, says Patrick Chisanga, past president of the Institute of Directors of Zambia, the challenge is focused on helping state-owned enterprises, cooperatives, and Development Finance Institutions to see the value of corporate governance. “We bring pragmatism in our contributions to the work we support.”

PSAG Deputy Chairman Christian Strenger, who has developed the corporate governance scorecard approach to support the application and understanding of corporate governance codes, recently helped to implement the adopted codes in Bulgaria (National Corporate Governance Code) and in Bosnia and Herzegovina (separate Corporate Governance Codes for the Sarajevo and the Banja Luka stock exchanges). Strenger is also a director of DWS Investment GmbH and a member of the German Government Commission on Corporate Governance.

In these and other efforts, Strenger says that the senior advisors drawn from PSAG make a significant difference in the companies’ adherence to corporate governance best practices. “Boards listen more closely to the advice given by an expert who has sat in their position and understands the many tasks a director must fulfill to abide by a code.”

In interviews with PSAG members, they stressed the following advantages of private sector involvement in developing and implementing corporate governance best practices and monitoring the results:

- Provide broad range of technical, financial, legal, economic, managerial, and political expertise to strengthen local capacity
- Build credibility with major stakeholders
- Save time, resources in learning why past efforts succeeded or failed – increased efficiency through a reduced learning curve
- Enhance creativity and innovation
- Strengthen communications skills to explain corporate governance in ways readily understood by companies’ owners and senior managers
- Jump start local and regional ownership of the reform process, a key source of support if corporate government development is to succeed
- Exert influence on peers, government, and public opinion to forge consensus and motivate changes in behavior
- Drive better securities regulation and enforcement to broaden access to capital
- Inspire entrepreneurship
- Help businesses to network with one another

Private sector counsel is critical to determining the phasing and sequencing of corporate governance reforms, observes Jesus Estanislao, chairman of the Institute of Corporate Directors in the Philippines and President of the Institute

*“It must be said that the private sector is made up of many different corporations with very different attitudes towards corporate governance reforms. Some are much more open and eager than the others.”*

**Jesus Estanislao**, Chairman of the Institute of Corporate Directors in the Philippines; and President of the Institute for Solidarity in Asia

## ENGAGING THE PRIVATE SECTOR: SUCCESS FACTORS

- Make sure that the group seeking counsel on corporate governance and the PSAG member understand each others’ roles and are clear on the circumstances in which they are working
- Work to surmount skepticism about private sector motives and concerns; this will minimize potential challenges that may undermine efforts
- Define the PSAG volunteer’s role succinctly to ensure that their time is utilized effectively so that work isn’t simply “outsourced” to them
- Prepare them with sufficient background material about the country, its economy, and the factors that may influence the successful implementation of corporate governance reforms
- Strike a balance between public and private sector demands
- Ensure their independence from any public financing, or one-sided private financing where one party would determine direction
- Include women in the process to ensure that gender-based issues are addressed

*“Sound corporate governance rules and practices—transparency, accountability and equitable treatment in the relationships between corporations and capital providers—encourage lower-cost, more stable capital formation, and the efficient allocation and use of assets. In some of the most important areas, only the private sector can bring about change.”*

**Ira Millstein**, Senior Associate Dean for Corporate Governance, Millstein Center for Corporate Governance and Performance

**Eugene F. Williams Jr.** Visiting Professor in Competitive Enterprise and Strategy, Yale University

for Solidarity in Asia. “The private sector can help determine what is realistic to achieve within a given timeframe. It also knows the dynamics of implementing reforms.”

An example, says Paulina Beato, an independent director of REPSOL-YPF and president of the Audit Commission in Spain, is helping countries and companies appreciate the point that “they do not need to do everything at once. Often, there will be reluctance to adopt a code until all areas have been covered, but this is not necessary. We have seen how success can build over time by implementing components of a corporate governance code step-by-step. This is an example of how PSAG informs efforts to improve corporate governance.”

Other PSAG members noted that code drafting committees may postpone adoption of a code until it is “perfect.” By showing drafters examples of other codes that evolved over time, PSAG members can help to remove this major obstacle to progress.

## Balancing Public and Private Sector Concerns

“It seems to me governance should principally be a private sector concern,” said David Pitt-Watson, a senior adviser at Hermes Fund Managers in the United Kingdom.

In his work in advancing corporate governance, he notes the irony “that often it is those who object to government interference, who are also resistant to voluntary governance change.”

“We really have a choice,” Pitt-Watson said. “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. But excessive government interference is likely to prove bureaucratic and inflexible. The aim is to ensure that those who run companies are accountable to those who have appointed them to do so.”

Estanislao cautions that a common misnomer is that the private sector speaks with one voice. It does not. “It must be said that the private sector is made up of many different corporations with very different attitudes towards corporate governance reforms. Some are much more open and eager than the others. The laggards do put up obstacles. Nonetheless, once we have a core group of corporations that want to go ahead and lead the way, eventually even the laggards sit up, take notice, and follow the reform leaders, once these show that reforms make a positive difference in share prices and on the bottom line.”

The personal rewards from involvement in PSAG

*“Corporate governance principles should not be perceived exclusively as private sector concepts. Transparency, accountability, justice, and responsibility are general principles that should be accepted in management matters across all sectors, including the public one.”*

**Patrick Zurstrassen, Chairman,**  
Luxembourg Institute of Directors

are tremendous, notes Leonardo Viegas, who is a member of several boards and a founding member of Brazil’s Institute of Corporate Governance. “It is a very rewarding experience to help business leaders learn how to run their companies better by improving governance. As a PSAG volunteer, you feel you are making a difference on a global scale, providing help where it is needed most. It is a wonderful experience to join forces and interact with top-level professionals who have different backgrounds but similar values, and who are equally committed to advance the public good.”

## PRIVATE SECTOR ROLES IN CORPORATE GOVERNANCE

Private sector can play a role in each stage of a code governance reform development and implementation:

- Debate
- Initial decisions on approach
- Strategic plan development
- Design, drafting of codes
- Packaging
- Adoption
- Implementation
- Evaluation, modifications

## SELECTION OF PRIVATE SECTOR ADVISORS' PRO BONO WORK IN FISCAL 2009

- Corporate Governance Code peer review in MENA (2008-2009)
- Development of toolkit to train journalists about corporate governance in partnership with Thomson Reuters Foundation (June 2008 to December 2009)
- BOLCEN Conference, Panama (August 28-29, 2008)
- IFC Knowledge Management Code Workshop, Washington, DC (September 18-19, 2008)
- Corporate Governance in Emerging Markets, Yale University in New Haven, CT (September 19-20, 2008)
- Enterprise Corporate Governance, China (September 22-23, 2008)
- IBGC Study Tour, Washington, DC (October 22 – 24, 2008)
- Conference on Ethics for Contemporary Africa, Ethiopia (October 22 – 24, 2008)
- Corporate Governance Conference, Mozambique (October 10 – 11, 2008)
- Media Workshop, Kazakhstan (October 15 – 17, 2008)
- MENA Institute of Directors, Morocco (October 22 – 23, 2008)
- India Advisory Council (November 24, 2008)
- Latin American Roundtable, Mexico (December 1, 2008)
- Latin American Companies OECD Roundtable, Mexico (December 2-3, 2008)
- Eurasia Code Development Workshop and Conference, Azerbaijan (January 15-16, 2009)
- Train the Trainer Program for the Forum's Board Leadership Resources, Sao Paulo, Brazil (February 15-20, 2009)
- SEE Regional IoD Workshop, Belgrade, Serbia (February 18 - 19, 2009)
- Corporate Governance Alternative Dispute Resolution Toolkit Development (June 2008 to July 2009)
- Corporate Governance Corporate Scorecards for the stock exchange in Banja Luka, Bosnia and Herzegovina (2009)

More information about these activities is available on the Forum's Website: [www.GCGF.org](http://www.GCGF.org).

*"Trust is essential throughout the process. PSAG members' participation in the dialogue lends credibility and engenders trust among all parties engaged in building support for corporate governance,"*

**Simon C.Y. Wong**, Adjunct Professor of Law, Northwestern University School of Law, Former Head of Corporate Governance, Barclays Global Investors Limited

### LEARN MORE

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### NEXT ISSUE:

In India, the Forum has pioneered innovative partnerships with the National Institute for Securities Markets, which belongs to the Securities and Exchange Board, and the Confederation of Indian Industry, one of the world's most powerful industry associations.