

Conclusions of 7th WCCG conference

Summary

- **Boards must operate as a cohesive team where challenge and raising of sensitive issues can occur without breaking the harmony of the group**
- **The primary boardroom task is strategic direction, to be effective boards must receive the right information and focus on the key issues facing the business**
- **Boards should work on continuous improvement of their own performance, including areas like CEO succession, executive compensation, board skills and board diversity**
- **The board is responsible for the values and ethical behaviour of the organisation, it must take a wide view and ensure that the interests of all stakeholders are taken into account**
- **The primary purpose of business is economic; CSR is necessary and must support the business. The board needs to define the role and scope of CSR, and the structures and systems to achieve it.**
- **External auditing is an essential check to ensure board accountability and must be supported by internal auditing.**

Working Session 1 A Developing the board – Dealing with compliance issues

- Accountability cannot be ensured without effective audit. But there is an expectation gap in relation to auditing. Thus to increase public confidence in the quality of external audit self regulation alone will not be enough.
- The auditors need to take sufficient care when confirming the credentials and the quality of work of those upon whom they will rely while doing the audit.
- The board etiquettes should be improved and there should be effective behaviour of the board members in the board meetings.
- The scope of work of external auditors has become more versatile and they have to opine and provide assurance on matters other than financial statements also and thereby they should act more diligently.
- With the advent of globalisation, the developing economies are integrating into the global market and as a result the swimsuit syndrome disclosing the non-vitals and hiding the vitals will have to be transcended. The faith in external auditors which has been lost because of big scandals in the corporate world needs to be rebuilt to ensure proper corporate governance.
- Internal audit mechanisms should be strengthened more so that they can play an important role in complimenting the external audit.
- Deficiencies in accounting standards should be removed in theory as well as in practise.

Working Session 1 B Developing the board through STARR – selection, training, appraisal, remuneration and retirement

The Balanced Board

- The primary Boardroom risk is that directors may not possess the skills necessary nor have the competence to fulfil their obligations with respect to strategically steering the organisation in the right direction.
- To ensure that in future, the Board has the right balance of skills, skills audits are undertaken to identify gaps in abilities and target individuals or use training to develop current Board members.
- The organisation needs to tap into the wider gene pool, in relation to gender, ethnicity, geographical and skills distribution when recruiting.
- Research shows that CEO succession planning is the most important HRD issue for the board.

Attributes to Look for in a Board Member

- The Board member needs to be able to demonstrate high performance standards in relation to the work delivered.
- Board members who think independently regardless of their status make the best Board members.

Training Board Members

- Board effectiveness depends on the quality of interactions of Board members and not just on their capabilities and attributes.
- Studies show that training undertaken after new members have joined the Board increases participation.
- Key areas for training for boards is recruitment and HR skills and risk management.

Board Evaluation

- Board evaluations can take the form of a self-evaluation (reviewing terms of reference and performance against these), third party evaluation with open ended questions or peer evaluations.
- Computerised performance management systems are used to monitor the performance and health of the Board with three tiers of objectives (level 1 – Board, level 2 – sub-committees, Level 3 – individual directors).

CEO Salaries

- Internationally, CEO salaries are rising in other countries but are dwarfed by salaries of the CEO's in the USA.
- Research claims that excessive CEO pay lowers employee morale, undermines the bottom line and exerts a burden on tax payers.

Linked CEO Pay to Worker Pay

- Research in the USA shows that CEOs typically earn more than 400 times the average workers pay.
- Solutions to tackle this issue include capping CEO pay at various ratios to provide incentives for creating jobs or requiring large corporations to disclose their wage structure.

Failure to Provide Performance Appraisals

- Reasons that Boards may fail to provide performance appraisals include uncertainty regarding the appropriate criteria to be used in the assessment and concern that the special Board – CEO relationship will be disturbed.

Corporate Performance

- CEO dismissals increase as a direct result of investor's dissatisfaction with poor performance (long term CEO tenure reduces profitability).

The Boards Expanding Role in CEO Compensation

- Boards are being challenged to look beyond the myth of money and profit maximisation as the primary motivator and make CSR part of the criteria for CEO compensation (at all levels).

Working Session 2 A Embedding CSR into the boardroom

All organisations now need to consider CSR

- There is a shift in capability to deal with social issues from governments to corporations
- CSR is becoming a vital part of the license to practise for professional organisations in particular. But also for other corporations and even for closely held family firms
- The struggle to obtain talented employees demands that an organisation is seen to be engaged in social issues

Embedding CSR

- The board must take a lead and decide the role that it wants the organisation to take in society, this requires appreciation of society's expectations as well as having mechanisms in place to measure the social impact of CSR activity.
- There should be appropriate board structures to drive CSR to reflect the activity of the business (no one size fits all)
- Mechanisms are needed to drive information on CSR successes throughout the organisation, so that all those active in CSR can learn

Working Session 2 B Training to make boards instruments of change and innovation

Transforming Boards

- Corporate transformation is not just about organisational change but it is about effective and sustainable change for companies.
- In order to be elevated to the next level, the Board needs to ensure that the interests of stakeholders are taken into account and achieved.

Corporate Leadership

- Corporate leaders need to be skilled in judgement, analysis and decision making.

Roles, Methodologies and Tools

- Management Consultants can play a key role either as mentor, mediator or facilitator.
- The Six Sigma methodology can add value by focusing on the root cause of issues and problems (e.g. the non-financial aspects of how an organisation creates products, services and distribution).
- Board self-evaluation can be undertaken using a diagnostic tool focusing on processes rather than numerical scores.

Working Session 3 A How can boards improve the quality of engagement with all stakeholders

Steps the board needs to take

- The board must decide the strategy for CSR and set boundaries for CSR to ensure that effort doesn't get dissipated in too many directions at once. The CEO must drive the CSR process in the company or organisation.
- Identifying the key stakeholders who have material **influence on** the organisation is vital, also how, and by who, they are influenced.
- The key issues must be identified, i.e. those that are material

Methods:

- There are quantified research methods for measuring stakeholder perceptions

Internally:

- CSR needs to be integrated into the governance structures and management systems of the organisation

Externally:

- One mechanism is governance reporting. Organisations need to compare their reporting with what stakeholders expect

- In particular investors want strategic level reporting including information about values and risks, not disjointed and overly detailed reports
- Stakeholders, including shareholders, want engagement
- Shareholders can drive engagement with boards. They can follow a process starting with monitoring, moving to dialogue and escalating to proxy voting, shareholder proposals and ultimately disinvestment.
- Decisions taken by organisations increasingly have a CSR angle

Working Session 3 B How can directors improve the bottom line and benefit communities

SPEAKER: Ales Pachmann, Police Academy of the Czech Republic

The speaker reported that under usual circumstances, corporations and government come together to increase industry and employment for the betterment of the society.

In the case of Honda Corporation in the Czech Republic, it was reported that illegal lobbying and other questionable behaviours resulted the promise of 3,000 jobs becoming only 1,000 jobs. It was reported that, other suspicious agreements between the corporation and government seemed to alter this economic transaction by turning it into a political transaction.

Solutions offered by the speaker included:

- Eliminate government incentives
- Destroy monopolies
- Move towards transparency
- Implement the UN Convention Against Corruption
- Implement the 4SIMM Integrity Model
- Audit processes and survey management for compliance
- Maintain market competition

SPEAKER: Dr. Dharminder Singh Ubha, Head of P.G. Dept. of Commerce

This program discussed the “value-based ocean of ethics” offered through alignment of business behaviour with the teachings of the Bhagawad Gita and the Guru Granth Sahib.

The speaker offered that scriptures elevate consciousness to a higher level, and that *whatever the best ones do, others will follow*. So, doing ones’ work without attachment, allows one to attain supreme outcomes. The scriptures offer that it is the ego that corrupts potential and promotes such practices as:

- Dishonesty and greed
- Delusions
- Lust, wrath, attachment and pride
- Untruthfulness
- Distrust and suspicion

People are the driving force in corporate governance, as such, spirituality and materialism can balance together and ethics are the root to success.

SPEAKER: **Seamus Gillen, H2Glenfern Consulting, UK**

Participants were challenged to describe the business case for CSR and reminder that without a business case, CSR may not flourish as boards exist, to:

- Define and develop strategy
- Manage or chart organizational progress
- Create and safe guard values/assets
- Select the CEO and executive team

The speaker reviewed the results of a 25-year European study that concluded that business failures occur primarily due to **fraud**, which is intertwined with:

- Ethics
- Governance
- Trust
- Lack of values

To proactively address risk management, firms should address the impact and link between:

- Country
- Compliance
- Reputation

If a loss of reputation occurs, Boards must focus on:

- Asset protection
- CSR
- Governance

Properly managing these three elements (as listed above) produces **trust**, which is primary to stakeholders, and necessary to perpetuate a continued and solid corporate reputation. Finally, CSR is not the same as branding, and CSR is not philanthropy. CSR needs a business case and oversight to be a positive element in corporate realities.

SPEAKER: **Lt. General J.S. Ahluwalia, CEO of the Institute of Directors (India)**

The speaker reported that CSR seems unlinked to corporate strategy and therefore can not properly drive the choice of new products and services or marketing options. This view was supported with actual case study of a firm from India. It was further posit that CSR should be added to the firm's balanced scorecard approach as a way of expanding its use and sustaining an enhanced long-term strategic corporate implementation.

Participants were also encouraged to include CSR awareness and valuing as a criterion for direction selection, and training. The final thought was that only through proactive CSR can an organization entirely reach the full impact of a "triple bottom-line".

AGGREGATED MAJOR POINTS FROM SESSION 3B

- Values-based behavior is needed as human beings are the foundation of corporate action, and implementing values-based behavior is a proactive exercise.
- Corporations are not discrete and isolated entities, as such CSR is a responsible and proactive stakeholder need.
- To create the greatest impact, CSR must be considered in the selection, training, and retention of directors.
- CSR should be linked to a solid business case if it is to have a long-term impact.
- Governance, asset protection and CSR reputation are three interwoven elements that define real or perceived corporate TRUST.
- Proactive Corporate Governance must have a way of including CSR to reach the desired “triple bottom line”.

Overall Conclusions of the Conference:

Compliance Issues

- External audit is essential for accountability
- Deficiencies in accounting standards must be addressed
- Auditors are increasingly expected to take a broader view than purely the financial numbers
- Auditors must be careful that the information supplied to them, and on which they base their audit, is accurate
- Internal auditing should be strengthened to complement external audit.

A new Boardroom mindset

- In order to be elevated to the next level in terms of corporate transformation, the Board needs to ensure that the interests of stakeholders are taken into account and achieved.
- Constructive and collaborative arrangements need to be formed between the Board and CEO, on the provision that members are not afraid to confront sensitive issues.
- Boardroom awareness of the need to continuously improve is one defining characteristic of the Board ascending to the next level.

The Boardroom needs to focus on key risks to progress

- Boards should gel into a cohesive team and focus on key issues at meetings which involve dialogue where they challenge each other directly without breaking the harmony of the group.
- How Boards receive information, in what form and getting the right information from the right source is vital to how the Board operates.

The Board needs to focus on substantive issues

- There is a need for the Board to widen their view in terms of total responsibility.
- The Board needs to apply its wise counsel to contribute to the long term health and position of the business by focusing on areas such as CEO succession, CEO compensation, the wider Board member gene pool (when recruiting) and monitoring performance and risk.

CSR is becoming an essential element in governance

- Shift in capability to deal with social issues from governments to corporations
- Stakeholders expect CSR, it is becoming part of the license to practice and employees often demand it
- Decisions taken by organisations increasingly have a CSR angle

CSR is a board responsibility

- The board needs to define the role and scope of an organisation's CSR activities
- Appropriate board structures are needed, CSR needs to be integrated into the governance structures and management systems of the organisation

Stakeholders wish to be engaged and can otherwise cause disruption

- The key stakeholders and key issues for an organisation need to be identified (i.e. those that are material)
- Governance reporting needs to be compared with stakeholder expectations (and this can be measured quantitatively)

CSR must be properly integrated into business

- There must be a business case for CSR
- CSR needs to be taken into account in the selection, training and retention of directors

Ethics

- Transparency and competitive markets are the best mechanisms for ensuring ethical behaviour
- Values are essential for good corporate governance and CSR, business failures occur primarily due to fraud