

GOLDEN PEACOCK AWARD

First, I must thank you very sincerely for the honour which you have done me by conferring on me this year's Golden Peacock Award. It is indeed an honour to be numbered among those who have received this very special form of recognition before me. May I also take this opportunity of congratulating the World Council for Corporate Governance on all that the Council has already achieved in the field of corporate governance and on its continuing mission in this field. I have now retired from active involvement in matters of governance, but I recognise the importance of the World Council's influence on a rapidly developing discipline.

My involvement in corporate governance began in May 1991 and it seemed appropriate therefore to reflect briefly on the manner in which it has developed over the last 15 years. At that time the phrase corporate governance was used by lawyers and accountants but meant practically nothing to anyone else. Now it features in the programmes of business schools around the world. That is an extraordinarily short time for a subject to move from obscurity to ubiquity.

Even more surprising is the way in which corporate governance has broadened its reach internationally and as a concept. Our UK committee was set up by the financial sector, concerned at the failure of companies whose audited accounts prior to their collapse appeared to give no indication of the true state of their finances. While we began with the financial aspects of corporate governance, we had hardly started work when the BCCI bank and Robert Maxwell's empire both collapsed, thereby raising fundamental issues of board responsibility.

Our aim as a committee was a limited one, it was to make the existing UK structure of corporate governance work better. We defined corporate governance narrowly as "*the system by which companies are directed and controlled*", and we focused on boards of directors, because it is their task to direct and control. We published a Code of Best Practice, which set out a series of principles or guidelines for boards of directors to follow in ways which made sense in their particular circumstances and which carried the support of their shareholders.

There was no requirement on companies to comply with the recommendations of the Code. There was, however, a requirement for companies listed on the London Stock Exchange to state in their annual reports how far they complied with the Code recommendations and to give reasons for areas of non-compliance. We called this approach "*comply or explain*" and these were genuine options, it was not a case of "comply or else". We left compliance itself as a matter for boards and their shareholders. We referred to this as market regulation. However the market can only regulate effectively, if it has the necessary information on which to do so. Hence the basis of the Code was disclosure.

Other countries followed suit, largely adopting our "comply or explain" approach. A headline in one business journal announced, "*Code epidemic hits Portugal*"! These national codes shared our simple aim of raising national standards of board leadership. The first international governance initiative was the OECD's publication in April 1998 entitled, "**CORPORATE GOVERNANCE – Improving Competitiveness and Access to Capital in Global Markets.**"

This broadened the whole concept of corporate governance from being solely concerned with raising standards of board effectiveness to its acceptance as a key factor in economic development. It also broadened it in another direction by stating that, "*The corporate*

governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation in creating wealth, jobs and the sustainability of financially sound enterprises." Thus for the first time governments were called upon to play their part in promoting good governance and stakeholders were included along with shareholders, emphasising thereby the social responsibilities of companies.

The Commonwealth Association for Corporate Governance added a further dimension by calling for Commonwealth countries to devise codes of good practice to establish standards of behaviour in the public and private sectors in order to secure greater transparency and to reduce corruption. This widened the concept yet again, first by including the public sector and second by recognising the role of governance in promoting ethical standards.

Finally, the World Bank took up the cause, appreciating that investment would only flow to countries and companies whose corporate governance standards were acceptable to international institutional investors. Investment depends on trust and good governance promotes trust. The Bank has, therefore, taken the lead in providing corporate governance training around the world, wherever such training is needed to promote economic development and investment. The World Bank's mission is to alleviate poverty. Thus corporate governance has developed from improving board effectiveness nationally to playing a leading part in improving the prospects of ordinary people internationally. A quite remarkable transition in little more than a decade.

Where corporate governance now stands was well summed up by James Wolfensohn, when President of the World Bank, and I will conclude with his words. *"The proper governance of companies will become as crucial to the world economy as the proper governing of countries."*

In conclusion, may I again express my warm thanks for this Golden Peacock Award which means so much and at the same time congratulate the World Council on all that the Council is doing to encourage companies to recognise their responsibilities to the society of which they are an integral part.

Adrian Cadbury