tomorrow's good governance forum

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Building the stewardship economy

Response to
'A LONG-TERM FOCUS FOR CORPORATE BRITAIN'
Call for Evidence

Submission by Tony Manwaring,
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On behalf of

the 'Good Governance Forum'
and
Tomorrow's Company

January 2011

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Organisation: Tomorrow's Company

Please tick the box from the following list of options that best describes you:

	Quoted company
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X	**Business representative organisation**
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	Trade Union
	Lawyer or accountant
	Other (e.g. consultant or private individual)

Executive Summary

Tomorrow's Company in partnership with the Good Governance Forum strongly welcomes the Call for Evidence – but we believe that it does not go far enough, and that the scope is too narrowly defined in terms of focussing on particular aspects of governance, specific issues and challenges and a definition of stewardship which is limited to the functioning of capital markets.

In particular we welcome the new focus on Stewardship – and go on to argue that this should now be extended by developing the concept of the 'Stewardship Economy'; and deepened through a rigorous analysis of the investment value chain, identifying key points of intervention and leverage, to shift the system from the dominant focus on short-term economic value, to one which reinforces and encourages the principles and practice of stewardship, and puts citizens and companies centre stage.

New measures of business success increasingly focus on building economic, social and environmental capital. The last wave of economic development rested fundamentally on two assumptions, that natural resources were abundant and talent was scarce: we argue that both of these assumptions are now wrong, and must be turned on their head. We have entered a new 'long wave' of economic development: some of the world's largest businesses have come to terms with this new reality and are leading where others will surely follow.

Government policy, in the UK and Europe must now not only recognise this very different era but also develop the dialogue and relationships required to create the enabling conditions so that business can be a force for good in creating the 'stewardship economy'.

We identify the following as the building blocks of the stewardship economy:-

- **A new primacy to value creation**
- **Going beyond 'fortress Britain', for the UK to thrive as part of the global economy**
- **An understanding of strategic and systemic risk to build resilience**
- **A recognition of new underlying drivers of value creation to build long term wealth and prosperity**
- **An understanding and celebration of companies as the essential engines of value creation**
- **Establishing a co-operative platform to support multi-stakeholder dialogue and bridge between private and public policy**

These considerations should set the context for boards and director duties, and for the role that capital markets should play, in providing the finance for and in service to the stewardship economy.

We describe the important contribution that the concept of the Board Mandate can play in improving corporate governance.

Finally, we must reinforce the importance of understanding the role of leadership and culture, and the profound impact of values in underpinning effective behaviours, as the essential bedrock of the Stewardship Economy.

Responsible leadership is needed from leaders in business, government and elsewhere, to embed values, challenge and create appropriate behaviours – and thereby to restore trust.

In this context we welcome and see as integral the initiative of the Lord Mayor of the City of London in his initiative to restore trust in the City, as the basis of building the preconditions for the City's global success in the twenty-first century.

Introduction

The *Good Governance Forum* discussed the Call for Evidence at our recent meeting, in discussion with Mike Penry of BIS. We welcome this consultation and believe that it presents a significant opportunity for collaboration and engagement on issues of vital national importance, and look forward to further dialogue building from this submission.

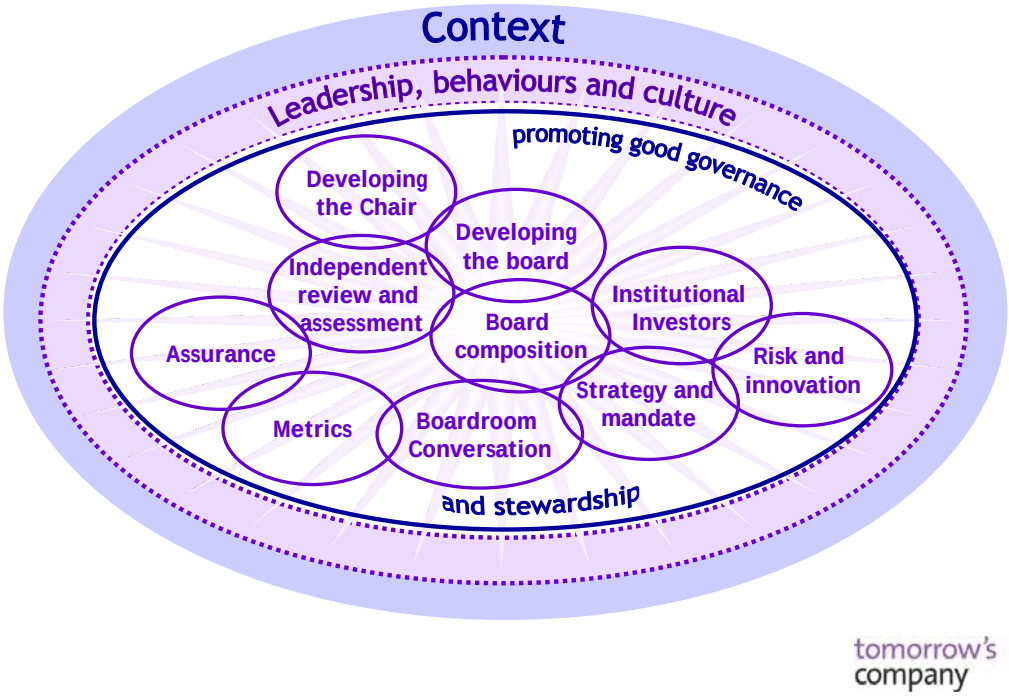
This paper extends the arguments and themes which we started to explore at the Forum, which are summarized in some detail in **Appendix One**. The agenda of the Good Governance Forum, of which BIS is of course a member, is summarized in **Appendix Two**. In so doing we also draw on the broader work of Tomorrow's Company.

We have been encouraged to take this opportunity to question what is missing from the Call for Evidence, rather than necessarily be bound by its current scope. By responding on this basis, we hope to add greatest value.

Let us begin by warmly welcoming the Call for Evidence and in particular the fundamental framing provided by 'A Long-term focus for corporate Britain' - this is indeed central to our future prosperity and national interest, and the wellbeing of future generations.

The Secretary of State's introduction begins *'Successful companies – and the markets from which they raise capital – are vital for the health of the UK economy'*. He goes on, asking *'whether the system in which our companies and their shareholders interact promotes long-term growth – or undermines it.'* In conclusion he encourages solutions *'owned and driven by market participants, investors and companies.'*

As can be seen, this overlaps powerfully with the integrated and systemic agenda of the Forum:-



Building the Stewardship Economy

Tomorrow's Company has made a significant contribution to the new thinking on stewardship which is now so influential in charting a policy response in the wake of the financial crisis – rejecting heavy handed regulation, but challenging an assumption that market mechanisms on their own will be sufficient.

Our report *'Tomorrow's Owners: stewardship of tomorrow's company'* helped put stewardship on the policy map, and, as has been acknowledged, played an important part in establishing the UK's first stewardship code.

We must therefore welcome the further interest by the UK Government in exploring what will make stewardship work in practice, giving detailed consideration to the relationship between corporate governance and capital markets.

We will comment further on these issues in the next section of our submission, but first we want to challenge – constructively we hope – the basis of the analysis which underpins the Call for Evidence. In many ways, we do not believe it goes far enough, and that the scope is too narrowly defined in terms of focussing on particular aspects of governance (e.g., executive pay), specific issues and challenges (eg, takeovers) and a definition of stewardship which is limited to the functioning of capital markets.

Let us begin therefore by mapping out key themes and issues which it seems to us deserve far greater weight:

Firstly, the priority we must give to value creation over value redistribution – the pressures on the incoming Government in terms of public finances are well understood, with the result that the policy conversation has focussed on cutting the public deficit and who will and won't get what as a result.

This has reinforced the emphasis of successive Governments on issues of the redistribution of value, and not its creation – it is as if there is an assumption that value creation will take care of itself, despite the obvious danger that we will end without the value to redistribute.

There are some welcome signs that Government is more fully recognising the importance of business, but as we shall go on to argue, the 'paradigm' which unconsciously shapes public perceptions has untold impact – for too long we have bought into a worldview which at best takes business for granted, and this can only be overcome through concerted leadership, engagement and advocacy.

Secondly, the need to challenge a Fortress Britain mentality reinforced by the assumption that the world owes us a living – value is created through complex chains of production and distribution which span the world, cutting across national and corporate boundaries and cultures. When the government talks about UK pc, it is important to make it clear that this is a concept that allows for increasing international collaboration and interdependence.

As we have argued elsewhere, in *'A new talent agenda for the UK'* (produced with and for the Talent & Enterprise Taskforce) the contrast with India and other dynamic and emerging economies is stark. There is a powerful alignment between business, people, communities and the nation in building a new future together, a sense of rich and dynamic possibility, which drives innovation and entrepreneurship, reinforced by a strong national pride and common focus on modernisation, growth and prosperity.

The contrast with the UK is stark and worrying. We become disconnected from these processes of value creation at our peril. There is a generational challenge to inspire and engage young people in particular, but all generations, to welcome and to want to be part of this global economy, as UK and global citizens.

Thirdly, it is imperative to understand the importance of systemic and strategic risk – and the need to build resilience for companies, communities and countries.

We now live in a world where a few people taking bad decisions can not only bring down a business – but also a sector, and in the 'wrong' combination, can threaten the economy as a whole. Dominoes fall quickly, with huge knock on impacts. Supply chains are complex and interdependent, and run the risk of being stretched to

breaking point

It cannot assume that today's and tomorrow's crisis will be driven by yesterday's issues – there is a great danger of closing the stable door after the horse has bolted. Of course, we need lasting solutions to the problems faced by the financial sector, but the challenges of the future may well be driven by a very different set of pressures: for example energy shortage, water scarcity or food riots in another part of the world.

Governments at national and regional level must develop the capability to work with business for strategic risk assessment, identifying 'black swan' risks and creating the enabling conditions to build resilience in the system for the future.

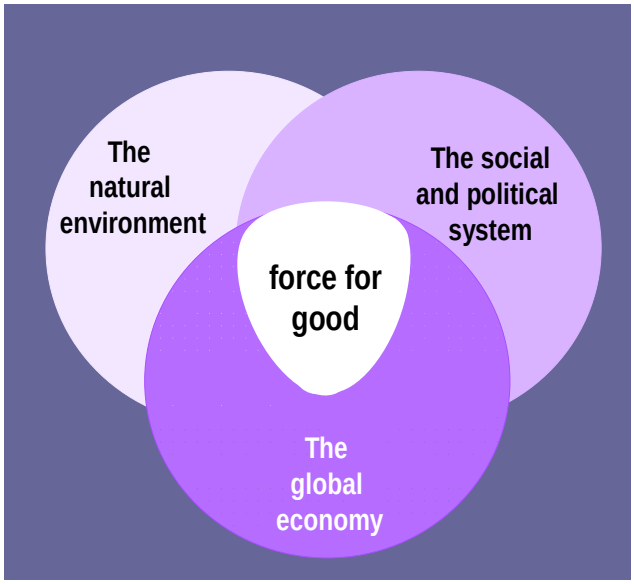
Fourthly, the drivers of value creation are changing, once and for all – there is a great danger that policy is driven by the metrics of the last crisis, focussing not only on the short-term but also exclusively on narrow definitions of economic performance in isolation.

New measures of business success increasingly focus on building economic, social/human and environmental capital. The last wave of economic development rested fundamentally on

A) the Washington Consensus, that unfettered free markets result in the optimum allocation of resources, and

B) two underlying assumptions, that natural resources were abundant and talent was scarce: we argue that both of these assumptions are now wrong, and must be turned on their head. Tata, Wall-mart and Unilever in different ways are some of the world's largest businesses who have come to terms with this new reality and are leading where others will surely follow.

We argue for going beyond the 'triple bottom line' and recognising the power and significance of the' triple context' – which therefore recognises that future business success is inextricably linked with the health of three interdependent global systems: the global economy, the natural environment and the social and political system.



In this context we welcome initiatives such as the Economics of Ecosystems and Biodiversity (supported by the EU with the active involvement of the UK) which creates tools for valuing nature; and support the arguments of those who contend that human capital should be seen as an asset, and not just a cost, on the balance sheet: our conviction goes beyond metrics however, that the creation and opportunity of the new economy

requires an integration of these various strands of capital to create long-term value and wellbeing, which is as much about mindset as it is metrics.

Fifthly we need to see businesses as engines of sustainable value creation – of course businesses must make a profit, but this is not, we believe a statement of purpose; nor does it best ensure that businesses are successful. This builds on our fourth point that the drivers of value creation are changing fundamentally, especially for large global businesses: economic value is no longer a sufficient yardstick of success though it remains absolutely necessary. It therefore follows that models of future business success must change.

As Mervyn King, argues, in the introduction to 'King III':

> "Because the company is so integral to society, it is considered as much a citizen of a country as is a natural person who has citizenship. It is expected that the company will be and will be seen to be a responsible citizen. This involves social, environmental and economic issues – the triple context in which companies in fact operate. Boards should no longer make decisions based only on the needs of the present because this may compromise the ability of future generations to meet their own needs.
>
> *'The success of companies in the 21st century is bound up with three interdependent sub-systems – the natural environment, the social and political system and the global economy. Global companies play a role in all three and they need all three to flourish.'* This is according to Tomorrow's Company, UK. In short, planet, people and profit are inextricably intertwined"
>
> (Mervyn King is Senior Counsel and former Judge on the Supreme Court of South Africa, and Chairman of the King Committee on corporate governance in South Africa)

Sixthly, we need to have a view of what we are going to be great at doing in the future – how in practice will UK plc succeed, what kind of businesses with what capabilities should shape our economic landscape. Critically policy needs to ask and answer 'stewardship of what assets for which purpose - not stewardship in the abstract'.

Seventhly, there is a compelling case to establish a co-operative platform to support multi-stakeholder dialogue between political and public policy – which should at the very least help inform private sector policies for investment, skill development, research and innovation and government policies to create the frameworks and enabling conditions to support these outcomes.

National priorities have to be fully informed by business perspectives which are close up to edge of global competition, and business strategies have to be similarly informed by a sense of the economic high ground which UK plc aspires to command. This can best be achieved by bringing together government, science, NGO's, local communities and business.

The development of those national and sectoral frameworks of collaboration and of the institutional capacity to support their development is arguably the single most important contribution to the search for a more resilient long term stewardship and enhancement of the assets of the UK and the underpinning of wealth creation and well being generally.

What all of this adds up to is our view that whilst the Call for Evidence raises important issues it frames stewardship far too narrowly. Rather we argue for a different focus for policy as set out in this submission, which should set the context for boards and director duties, and for the role that capital markets should play, in providing the finance for and in service to the stewardship economy.

A mandate for UK plc

The Combined Code now begins with the following simple but profoundly important statement:

> *"The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company" (our emphasis)*

And, in terms of the role of the Board, the statement on supporting principles states:-

> *"The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meets its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met."*

The first output of the Good Governance Forum is the case for the Board Mandate. We believe that the Board Mandate is an important innovation in corporate governance and are encouraged by early feedback and evidence of implementation.

> *A mandate captures the 'essence' of the 'character' and distinctiveness of the company, in terms of: its essential purpose; its aspirations; the values by which it intends to operate; its attitude to integrity, risk, safety and the environment; its culture; its value proposition to investors; and plans for development.*

The full case for the Board Mandate has been set out in a document published by the Forum, together with a toolkit for the creation of a mandate.

We contend that many corporate failures – and the value destruction which resulted – stem from the lack of a clear mandate.

The argument for the Board Mandate of course links to other key areas of policy interest:-

a) *narrative reporting* – a clear Mandate should form the bedrock for narrative reporting, and in turn

b) *integrated reporting* – bringing together financial and non-financial data in the context of a clear narrative framed by the Mandate

c) *stewardship of asset owners and managers* – a clear Mandate provides the basis for clarity of conversation and relationship with capital markets, and a convergence with mandates operating in the investment chain

d) *assurance* - to move beyond regulation requires more effective assurance, the clarity and robustness of the process which leads to the creation of an effective Mandate can be a critical aspect of new assurance processes

We would encourage Government to promote the concept of the Mandate as an important innovation in corporate governance which, if widely practised, would enable the themes and focus of the stewardship economy to be embedded within the corporate governance of our leading companies.

Beyond the stewardship code – deepening practice, broadening support

In our work on stewardship we have described the following elements that need to be in place if the good intentions of the Stewardship Code are to be realised and are working on all these areas.

- *Demand side* – promoting awareness of stewardship and demand for stewardship approaches among pension beneficiaries and clients of financial services with the development of a stewardship charter/manifesto. We will summarise the case for stewardship in a document *'Why Stewardship Matters'*, leading to the development of relevant toolkits to help each participant in the system to be more effective in pursuit of stewardship

- *Supply side* – work with fund managers, investment consultants and FRC to develop the idea of the "stewardship spectrum" thereby developing criteria through which excellence in stewardship might be identified and rewarded in the market

- *Promoting improved stewardship practices* that build a better bridge between companies and stewardship investors through the work of the Good Governance Forum. This to include the *board mandate* (with which we are now engaging with Company Chairman) and work on board evaluation and nomination processes

- *The business case* – summarising the latest research evidence, to demonstrate *'Why Stewardship Pays'* framed through the forward looking lens of risk management. The case for investor stewardship is hindered by the lack of a single, accessible source of reference which makes the case to date in terms of performance and gives confidence to those who want to argue for stewardship, and gives confidence to those seeking to shape the new mindset which will reinforce a new understanding of value and value creation

- *The policymakers* – through our leading role in convening business and investor responses to this consultation on long term wealth creation as above, bringing together and championing a joined up view of policy measures by UK or EU that will promote the development of stewardship

The missing link: a systems perspective on building the stewardship economy

In our current work with CIMA and PWC looking at the corporate reporting system, *Tomorrow's Corporate Reporting*, and why it is so hard to achieve reform, we have developed the argument that those who are in positions of authority do not see or own the system as a whole, and that this is a pre-condition for effective reporting and its reform. Much the same applies in the case of stewardship.

The case for a systems perspective is powerfully underlined by the work of systems theorists. For example Donella Meadows has argued that the way to change a system is not by 'throwing money' at the problem – rather, focus on systems goals, the mindset which shapes the system arises and create the capacity to change paradigms. http://www.forceforgood.com/userfiles/Leverage_Points.pdf

Together with other key players, we believe the time is right for a far more rigorous systems analysis of the investment value chain from a stewardship perspective. Such an analysis should be the next stage in the consultation being undertaken by BIS, and we would welcome the opportunity to discuss this proposal.

The kind of policy recommendations which we believe might emerge would include, for example:-

a) an analysis of the impact of changes in Stock Exchange listing rules, which encourage or require reporting on the basis of long-term and sustainable value creation (as in South Africa)

b) broadening the criteria employed by key actors such as pension fund trustees. In South Africa, consultation is currently underway on a '*Draft Code for Responsible Investing by Institutional Investors in South Africa'* The Code will for example require institutional investors to develop a policy detailing the process of assessing the investment target's environmental, social and governance (ESG) fundamentals. The institutional investor must ensure that this policy is not only implemented, but also complied with.
http://www.iodsa.co.za/downloads/documents/CRISACode31AugI2010_For_Public_Comment.pdf

c) the incentive structures, and behaviours of key actors in the system

d) encourage for a diversity of ownership models which promote and reinforce long termism – for example not only the John Lewis model but also the structure on which Tata is founded

e) takeover policy – giving further consideration to proposals that for example the UK government could withhold approval for takeover by foreign companies which have not sought formal approval in a vote of all their shareholders.

It is in this wider context that we should consider Director's Duties – given that director's in the UK already owe their duty to the company, the system conditions within which the company operates need to reinforce reforms which seek to promote long-term decisions by directors; such reforms which are not set in this systems context are unlikely to be effective.

We therefore call on Government to continue to promote stewardship whilst recognising the wider definition of stewardship we set out, which puts companies at the centre of value creation, and creates the systems framework to promote stewardship across the economy.

We would welcome further discussions with BIS in relation to our proposed systems analysis of stewardship, and the detailing of leverage points and policy actions to move from the current system to one which builds the stewardship economy.

Appendix One

Long-term focus for Corporate Britain
Summary of Good Governance Forum discussion

Introduction by Tony Manwaring

David Styles (BIS) asked if Tomorrow's Good Governance Forum wished to formally engage in the call for evidence and submit a response.

Having read the Foreword by the Secretary of State, we were encouraged by the familiar language he used. For example:

- "Putting responsible shareholders back in the driving seat by giving them the information they need to understand the companies that they own and the power to act on it."
- "The paper I am issuing today is a call for evidence from across the corporate world and beyond to examine whether the system in which our companies and their shareholders interact promotes long-term growth - or undermines it."

Therefore the opportunity to engage in this consultation process is hugely welcome.

We are pleased to welcome Mike Penry from BIS to help us to understand the content and requirements better.

The purpose of the discussion today is to consider some of the broader themes, recognising that individual forum members may want to contribute separately to the Call for Evidence.

Mike Penry – Team Leader, Corporate Governance, Department for Business Innovation and Skills

Overview

In issuing the call for evidence, BIS are not suggesting that they have the answers; indeed they recognise that they may not even have posed the right questions. BIS are therefore inviting feedback on the questions as well.

BIS / the government want to understand the 'heartbeat' of UK plc. There is a need to delve down to identify what keeps the UK corporate markets alive and thriving.

Vince Cable and Ed Davey and others including Number 10, are very interested in this agenda. They have a very strong personal interest; Vince Cable has been wrestling with this for several years and Ed Davey has also been strongly involved in this agenda. Subject to diaries, we will try and get them to speak to this Forum.

By issuing this call for evidence, the government wants to understand the key issues that will affect the quality of corporate governance going forward.

This is being driven by:

- Brussels who are looking at a similar agenda. Whilst this will not drive the UK agenda it is to be noted
- the resonance with the wider messages such as the bigger society
- the growing emphasis on CSR

There is a real sense that business matters hugely to the UK in terms of wealth creation and the relationships within the investment chain. These concerns are not original, but are important, and it is important to ensure the corporate agenda remains a fresh and we consider if the current framework is relevant / appropriate.

This is not to be regarded as a call for more regulation. The result may be better or less regulation. Instead it is focused on understanding the key issues, the best way to address them and if there are better ways of encouraging the right behaviour.

The call for evidence closes on 14 January 2011.

The Response Form

The types of questions are wide-ranging. The questions on Director's Remuneration and Takeovers are quite detailed. This doesn't mean that ministers have made up their minds. The Takeover Panel will respond to the consultation and whilst their work is more specific, the government will be looking at the broader issues. In other areas the questions are broader.

Shareholders and their role in equity markets

The government is conscious of existing work that has been done in the past – eg the good work of the FRC - so this is not about reinventing the wheel, but there is a sense that both boards and the investment community need to play their part.

In one of Vince Cable's recent speeches on responsible ownership he emphasised that although there were no duties on shareholders within the Companies Act, they need to play their part in the wider health of the system.

The focus on UK corporate governance places weight on the role of shareholders. But what does this mean in practice going forward, especially for global companies? And with such a diverse group of shareholders? A company cannot have unfettered discretion, but we need the best framework to hold them to account without impacting unduly on entrepreneurialism.

On the role of the markets:

There are widely differing views on the impact of short-termism. For example one view is that one should never underestimate how determined directors can be or how determined a board can be to do the right thing. In other words, they are not swayed by short-termism or are they? And if they are, what is the impact of this? How can we help boards to run companies in a long-term way?

Process

There will be a number of stages in the consultation. The second stage will be in spring 2010, which will follow up with the call for evidence with concrete proposals.

So, to reiterate, BIS seeks your responses to questions as well as your views as to whether the right questions are being asked.

The overall agenda

This call for evidence is part of an overall agenda which also includes:

- Narrative reporting - which is seen as a tool for shareholders and investors and an opportunity for boards to explain what their long-term strategy is as part of effective accountability.
- Women in the Boardroom – by Mervyn Davies
- Long-term prosperity

Forum discussion

(*Forum comments /questions* followed by **MP responses**)

Work already done

Are you planning to bring together existing research? (taking into account academic research and, for example, the KPMG report on the value of takeovers?)

MP response: I have been surprised at the lack of recent studies and in-depth research. Please submit evidence pointing us to any relevant research or to academics or economists with whom we ought to consult.

Context – the changing world

In terms of long-term performance and corporate governance, we are living through a period of major change where China and India are of growing importance. Although we should learn from the lessons of the past we need to look forward as our future economy will look very different. International Boards bring particular issues especially in terms of corporate governance.

Context – what do we mean by Corporate Britain?

The context in which we're asking the questions presumes quite a lot. Do we mean the impact of companies based in the UK? Or corporate activity in the UK?

For example, there are differences between a US-based company operating in the UK versus a UK registered company operating globally.

Are we looking at Corporate Britain, or at UK quoted companies? Is it intentionally narrow?

MP response: Yes, the focus is narrow. The starting point is good governance for UK listed quoted companies. The ministerial focus is on plcs.

Context – Future of the UK

If you're asking businessmen to take a long-term view, they would ask if the UK will be a good place to do business. They need to know the future of the UK so setting the context is important.

In the original Tomorrow's Company inquiry (1993-5) we asked the question as to why the UK does not create or retain world-class companies. Is this one of the animated questions behind this call for evidence? Are we creating the conditions that promote the generation of successful companies, and who they are owned by?

MP response: We accept that there are wider issues such as the capital markets & investment chain, and if issues do arise as a result of this consultation, such as Tax issues, they will be fed-back and dealt with.

Context – links to other work and the wider context

This agenda also links governance stewardship and the reporting model, but unless set in context we don't get the full picture. Also the public vs private company element is critical.

MP response: There is also the link to long-term capital requirements and pension needs, which pushes the issue through to ultimate owners.

So, yes we are aware of the wider context but the focus is narrow and this is recognised.

Should we have a Mandate for Corporate Britain?

We have been discussing the need for corporate mandates. In effect the UK needs its own corporate mandate – ie a contract between the public and private sectors in terms of planning key relationships which enable business to play its fullest part; a social compact issues of sustainability needs to be incorporated now. So there are issues which are wider than the public policy issues in the preface. There is mention in the preface that "the UK has well functioning capital markets…" arguably, the capital markets have demonstrated disfunctionality over the past few years. The context is wider than companies and investors. Companies need to understand the context in terms of national objectives.

If we are serious about for example carbon capture and sequestration and other breakthrough developments we need to set out when and how this will be implemented both at a national and global level and so that companies can align their priorities accordingly.

MP response to Context questions:

I think it would be genuinely helpful to raise these wider issues. If the wider/broader questions are not here then make them – it's important that we understand the issues - and Vince Cable will address them.

Focus on additional questions rather than providing long answers to those questions given. Don't go narrow – go wider.

So in summary, I would ask you to:

- reflect your other concerns and questions through your answers, where possible
- present your wider issues to the ministers so that they may reflect on these.

I would point you to question 17 which enables any broader concerns to be put forward.

European / Global CG agenda

Appreciate that the Call for Evidence has a UK focus. However, most of corporate UK operates in a global market, and under many jurisdictions. Therefore they are subject to attempts to change / improve corporate governance elsewhere. On many fronts, whilst the UK can have an inward focus on its own regime and how this can be improved, there will be a concern over the initiatives of other jurisdictions, which may be sub optimal. There is also a concern about over regulation -- compliance is not accountability and is not a discharge of responsibility. Good corporate governance is about living by such principles, not rules.

Tomorrow's Company has recently been involved in discussions in Brussels, and TM was encouraged by the representatives of DG internal markets stating that key principles informing current policy discussions are that:

- *the financial markets need to be at the service of the real economy, and that*
- *the real economy needs to be at the service of all European citizens.*

This was a strong unifying theme for all present and all cultures represented within those discussions.

Would this meet the test of a mandate at a country level? One aspect that is arguably missing is the value proposition which taps into the long-term focus for Britain.

We need to understand how to bring together the right government structure and the right business model. If we can align everything else we get to the trust issue. Business and especially finance is profoundly distrusted at the moment. The GGF is searching for a better way than regulation which leads to the issue of trust and will provide UK companies the licence to operate in the 21st century.

CSR agenda

DP commented that, at a recent meeting about the CSR agenda, it was clear that CSR was misunderstood by many. There was a moment when everyone realised that it is a big agenda that touches everything.

Old established silos prevent issues being seen in a holistic way. The same applies within companies today - there are issues of working across traditional boundaries. Managed economies such as China and Singapore can reach a shared vision very quickly. We need a shared vision otherwise we will have a sub optimal answer.

Enron, arguably, took a narrow focus! The relationship between board and shareholders will only work if we understand the value chain, and the relationship between how directors behave and the investment chain and the points of tension between them. So if we had a clear UK mandate, the mapping of these relationships is a powerful and necessary thing to do.

MP response: a follow up with the GGF to discuss these wider issues would be beneficial and we will attempt to get the ministers involved directly with the forum, subject to diary commitments.

Corporate Governance in India

When questioned about India, Anant Nadkarni (Tata) commented: we look at governance in its broadest sense - as an area for a better sustainable business model.

When Tata was looking at sustainability and the need to reconsider the charity and CSR activities it undertook we identified six key enablers in three key sets of relationships:

1. *the relationship between ownership and governance*
2. *combining leadership and the business model*
3. *the impact of talent and people management and the interaction with the community around us.*

In terms of governance, we take a deeply consensus approach. Our operational heads see sustainability as the bigger issue, and we recognised that we needed a broader band width. We need the value co-creation model. If we only examined issues at the micro level, we would miss the big picture.

Appendix Two

Introduction to the Good Governance Forum and agenda of work

This response is being sent on behalf of the members of the Good Governance Forum (GGF).

The GGF was formed in March 2010 in response to questions raised about the effectiveness of corporate governance as a result of the financial crisis and the subsequent reviews by Sir David Walker and the FRC.

We define governance as "the procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations".

The GGF brings together a number of key businesses, organisations and individuals to explore what good governance means, to make practical recommendations to company boards and policy makers.

The purpose of the GGF is:

- to develop specific ways forward following the recommendations arising from Tomorrow's Innovation Risk and Governance, in particular those where input may be most valued by the Financial Reporting Council (FRC), the department for Business Innovation and Skills (BIS) and the participating companies, individuals and organisations.

- to consider in detail the deeper set of issues which are strategically critical to the well being of companies over the longer-term. These include:

  - risk, innovation and governance, and how best to develop and implement good practice within boards in relation to these linked issues at a strategic level

  - the relationship between companies, their boards, and major shareholders and how that relationship can be strengthened through greater transparency

  - how in practice to define, differentiate and reward effective 'stewardship' by boards of all stakeholder interests.

The key outcomes arise from two distinct forms of engagement:

- engaging with and influencing boards, with a particular focus on the strategic effectiveness of board behaviours and procedures, in part through the membership of the GGF

- engaging with government and other relevant bodies to influence reforms of corporate governance in the light of the forum's findings and recommendations.

The agenda of work of the GGF

1. **Strategy and mandate:** The case for the 'mandate' – setting out how the Board wants the business to be and to be seen over time, and how it will get there – setting the framework for engagement with investors and guidance of the executive. The Board's role in framing, owning and guiding strategy – and being held to account for so doing.
2. **The Boardroom 'conversation':** Understanding the different kinds of conversation that take place in the Boardroom. Recognising that particular responsibility of the Board – strategy, key decisions, risk/innovation, compliance and audit – require a different kind of conversation. Considering other key boardroom processes.
3. **Board Composition (including nomination):** The qualities and competencies required; the 'independence' criteria of NEDs; moving from compliance to being partners in value creation; achieving effective difference and going beyond the 'tokenism'; effective and transparent recruitment, including discussion of the nomination process; regular review of skills; the case for 'intelligent naivety' and constructive challenge; the positive impact of adversity; the role of the FD as 'guardian of the balance sheet'; the role of the CoSec and the future role of the HR profession
4. **Leadership, behaviours and culture:** The role of the Chairman and the Chairman's relationship with the CEO, and of the non-executive and executive team; able to leverage and effectively manage difference; with a clear sense of purpose and thereby understanding of how the business succeeds in creating sustainable value. The role of the Chairman deserves a particular focus: the route to becoming Chairman does not necessarily equip the individual for the role, which requires the subtle judgement combined with authority to hold competing views – and strong personalities – in effective balance.
5. **Development - the Chairman:** Given the critical role of the Chairman, there is a need to place a particular emphasis on their development. We will explore the role of coaching, mentoring and high level interventions to support the fullest possible development of the Chairman
6. **Development – the Board:** Behavioural and other frameworks to support board performance and effectiveness; the importance of peer to peer coaching and support; simulation and other techniques. Developing a 'felt logic' alongside a 'felt leadership', able to support the particular kind of conversation required appropriate to board focus.
7. **Independent review and assessment:** Recognising that the critical importance of the Boardroom requires objective, highly competent and top quality independent assessment – and discussing how best this can be achieved.
8. **Assurance framework:** Is it practical to develop an assurance framework relating to issues of leadership and culture, building on the survey of ICAEW members; could such a framework be used to inform and support specific interventions in the areas detailed above; and could such a framework be enabled and encouraged through government policy?
9. **Metrics:** Considering the metrics that should inform Boardroom decision making, recognising the importance of behavioural and cultural factors, as well as environmental and social drivers and financial data.
10. **Promoting good governance:** Possibilities include an award scheme to celebrate best practice, or collaborating with those now launched; developing a toolkit of best practice.
11. **Relationship with institutional investors:** To consider the various aspects of this critically important relationship, including the case for a more proactive involvement of institutional investors in the nominations process. In so doing, to explore whether stewardship is effectively being undertaken by boards and other major investors in companies, and what in practice this means.
12. **Risk and Innovation:** Understanding the impact of board performance on innovation and risk, recognising the qualities and processes needed to support innovation and manage different kinds of risk (business as usual vs business not as usual)
13. **Systemic risk to the industry and the economy** Governance has been framed at the level of the company, but many businesses have an impact on the system of which they are part: what interventions should therefore be put in place at the level of the company, sector and national economy