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Hubert Rampersad
Saleh Hussain

Authentic Governance

Aligning Personal Governance with Corporate Governance

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Authentic Governance Institute

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Preface

> *"Integrity is not a commodity. It's the most rare and precious of personal attributes. It is the core of a person's — and a company's — reputation".*
>
> —John Stumpf, Chairman and CEO Wells Fargo

Over the past years, we have heard and read plenty about how Boards of Directors should behave more responsibly in the light of corporate governance. Despite all these efforts, many implementations of corporate governance provide no protection from potentially catastrophic ethical failures.

The situation at JPMorgan Chase, the world's largest bank, early this year is an interesting case with regard to corporate governance. Government investigators have recently found that JPMorgan Chase devised "manipulative schemes" that transformed "money-losing power plants into powerful profit centers" and that one of its most senior executives gave "false and misleading statements" under oath. JPMorgan executives also ignored a series of alarms that went off as the bank's Chief Investment Office breached one risk limit after another. Rather than ratchet back the risk, JPMorgan personnel reengineered the risk controls to silence the alarms. In a previously undisclosed case, prosecutors examined whether JPMorgan failed to fully alert authorities to suspicions about Bernard Madoff. And nearly a year after reporting a multibillion-dollar trading loss, JPMorgan did face a criminal inquiry over whether it lied to investors and regulators about the risky wagers.

This case pinpoints that JPMorgan's corporate governance code and exhaustive regulations do not provide adequate protection. A recent study conducted by Labaton Sucharow, a New York City law firm, suggested that Wall Street still has a shaky grip on its ethical compass. Despite the financial changes enacted after the 2008 financial crisis, improper and even illegal activity is perceived as common among traders, brokers, portfolio managers, and bankers. Some other examples are the following: (a) US Treasury estimated that if Apple had more honestly assessed what percentage of its profits were generated by its US operations, it would have owed $2.4 billion more in federal taxes last year; (b) Wal-Mart's often criticized treatment of employees as a commodity and its sometimes inhuman business ethics; and (c) Chevron has been accused of tax evasion as well a number of environmental infractions in several countries and hiring military force for use on native peoples. All above-mentioned organizations have comprehensive corporate governance codes in place, implemented by the left brain Big Four accountancy firms (PwC, KPMG, Ernst & Young, and Deloitte), which apparently are not working at all.

Harvard Business School professor Bill George outlined in his article *Why Leaders Lose Their Way* why powerful and talented leaders often misbehave and how they lose their moral bearings, such as Hewlett-Packard CEO Mark Hurd who resigned for submitting false expense reports concerning his relationship with a contractor; US Senator John Ensign (R-NV) who resigned after covering up an extramarital affair with monetary payoffs; and Lee B. Farkas, former Chairman of giant mortgage lender Taylor, Bean & Whitaker, who was found guilty for his role in one of the largest bank fraud schemes in American history. According to Bill George, they can avoid these pitfalls by devoting themselves to personal leadership development that cultivates their inner compass, based on self-reflection. This process requires thought and introspection because many people get into leadership roles in response to their ego needs.

Unethical behavior of top executives, poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violating corporate governance codes are the main contributors towards the above-mentioned scandals. We urgently need a sustainable and innovative solution to this global epidemic.

Most companies' approaches to corporate governance are extremely formal, bureaucratic, cosmetic, not holistic, and not authentic and therefore fail to address above-mentioned shortcomings. It is time that we become aware that corporate governance cannot be controlled effectively with formal and exhaustive rules, regulations, guidelines, and procedures only. It is about decency and personal integrity, and this must be cultivated from within. As demonstrated by the examples given above, traditional corporate governance codes provide no protection from potentially catastrophic ethical failures. Company integrity must be a continuous informal learning process, based on alignment with yourself and alignment with your company. This ethical process must be promoted and communicated within the whole company to all stakeholders consistently. In this way, ethical behavior will become a routine in the whole organization, and leaders and employees will gain more understanding about their responsibility with regard to ethical behavior. They will understand that it is their responsibility to act ethically, on duty as well as off duty. This is a more sustainable, comprehensive, and holistic approach to ethics and social responsibility.

Sustainable corporate governance starts with personal leadership development, based on self-reflection and introspection and embedding personal values in the mind of the Chairman, President, CEO, CFO, managers, and employees and coaching them to reflect on these values honestly. In this way, good corporate governance will be characterized by trust, credibility, transparency, personal and social responsibility, open communication, and a continuous learning process, embedded in an ethical culture. This cultural shift will also have a positive impact throughout society.

Against this background, we propose an organic and holistic approach to corporate governance, by integrating personal values and integrity into one overall authentic governance framework, in which formal corporate regulations and personal values mutually reinforce each other. This new theory has been borne out of our leadership experiences in the corporate world. In this theory, we have defined governance in holistic and authentic terms, namely the systematic process of continuous, gradual, and routine improvement, steering, and learning that lead to sustainable high performance and ethical excellence.

This groundbreaking authentic governance method differs from traditional corporate governance concepts, which focus mainly on bureaucratic regulations, procedures, and policies and which insufficiently consider the importance of authenticity, holistic approach, and alignment with human capital, needed to achieve ethical corporate excellence. Our innovative corporate governance approach is combined with powerful tools to deliver peak performance and to create a stable basis for trustworthiness, credibility, and personal and corporate responsibility. It places more emphasis on understanding yourself and the needs of others, meeting those needs while staying true to your personal and corporate values, improving your personal integrity continuously, making ethics a way of life, and aligning these with formal corporate regulations, procedures, and guidelines. This integrated governance system, developed and globally trademarked by Dr. Hubert Rampersad, will create a paradigm shift in organizations and will work as a catalyst to accelerate the transformation of the personnel into committed and ethical executives and employees.

Based on this new concept Dr. Rampersad has established the Authentic Governance Institute (AGI) in the United States (www.authenticgovernance.org), which is the global not-for-profit membership association for the authentic governance profession. AGI's worldwide advocacy for authentic governance is reinforced by our globally recognized standards, certification and licensee programs for consultants and organizations, extensive academic programs, eLearning programs, chapters of practice in 50 countries, and professional development opportunities. Become a member and see what AGI can offer you at every stage of your authentic governance career. Discover more about what our AGI membership is and what benefits it offers, and choose the type of membership that's best for you. As an AGI member, you gain exclusive access to AGI publications and our global standards, networking options with our global chapters and online communities of practice, and career opportunities. AGI also offers a comprehensive authentic governance certification program for accountants, financial consultants, corporate governance practitioners and organizations globally. You will demonstrate your expertise and your commitment to the authentic governance profession with an AGI certification.

This book is an essential reading for executives and managers in all industries, not only in the banking business. We therefore welcome the global publication of this book by Springer USA. Thanks are due to Abdullah Wallace for his editorial assistance. We also would like to express our thanks to our families, who have inspired and stimulated us to take this challenge to write this important book. We hope you will enjoy this new governance concept as much as we love bringing it to you. Your feedback is welcome via h.rampersad@authenticgovernance.org and sh@shcbahrain.com.

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Chapter 1
Introduction

> *"In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. If you don't have the first, the other two will kill you. If you hire somebody without integrity, you really want them to be dumb and lazy."*
>
> —Warren Buffett

Over the past years, we've heard and read plenty about how boards of directors should behave more responsible in the light of corporate governance. Despite all these efforts, many implementations of corporate governance provide no protection from potentially catastrophic ethical failures.

Unethical behavior of top executives, poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violating corporate governance codes are the main contributors towards most of these scandals. Most companies' approaches to corporate governance are extremely formal, bureaucratic, cosmetic, not holistic, and not authentic and therefore fail to address abovementioned shortcomings. It is time that we are finally aware of the urgent need for a sustainable solution to this major problem.

It is also time that we are finally aware that corporate governance cannot be controlled with formal and exhaustive rules, regulations, guidelines, and procedures. It's about decency and personal integrity, and this must be cultivated from within. Sustainable corporate governance must therefore be an authentic learning process. It starts with embedding personal values in the mind of the Chairman, President, CEO, CFO, managers, and employees and coaching them to reflect on these values. In this way personal integrity and responsibility will become a way of life. By redefining and governing themselves effectively, leaders and employees will gain more understanding about their responsibility regarding ethical behavior, and they will understand that it is their responsibility to act ethically, on duty as well as off duty.

Against this background, we propose a more authentic, organic, and holistic approach to corporate governance. It entails a continuous voyage of discovery, involving continuous, gradual, and routine improvement, steering, and learning.

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It is about winning through good authentic governance, high corporate performance, and a journey towards a happier and more ethical life for individuals and ethical corporate excellence. Our unique and innovative corporate governance approach is combined with powerful tools to deliver peak performance and to create a stable basis for trustworthiness, credibility, and personal responsibility. This new inside-out approach places more emphasis on understanding yourself and the needs of others, meeting those needs while staying true to your personal and corporate values, improving yourself and your personal integrity continuously, making ethics a way of life and a continuous learning process, and aligning these with formal corporate regulations, procedures, and guidelines, instead of focusing on exhaustive formal corporate regulations, procedures, and guidelines only. The learning objectives of this book are described in the following box.

Learning Objectives

After reading this book and applying its concepts, you will learn to:

- Develop, implement, and cultivate authentic personal governance and corporate governance effectively.
- Create conditions for sustainable corporate governance.
- Increase your personal effectiveness.
- Develop your personal integrity effectively and become a better human being.
- Develop ethical personal leadership.
- Develop a highly engaged workforce, based on high ethical standards.
- Create a high performance culture and enhance the competitiveness of your organization.
- Create conditions for an organizational climate marked by self-guidance, creativity, passion, and ethical behavior.
- Develop a culture in which personal integrity and business ethics is a way of life.

This book consists of two parts. Part I focuses on authentic personal governance. This part is for everyone who wants to separate themselves from the crowd and deliver peak performance routinely in an ethical way. Part I is useful for everyone. Part II describes authentic corporate governance and the alignment with the company. This part is for organizations that want to realize ethical corporate excellence and improve their competitiveness based on this. Part I can be used separately from Part II.

In Chap. 2, we introduce an organic, holistic, and authentic governance model which will help organizations to realize sustainable high corporate performance and ethical corporate excellence. Chapter 3 focuses on the definition and formulation of your personal ambition. This soul searching process starts with formulating your dream, purpose in life, and values, based on a breathing and silence exercise. On the basis of insights acquired through this process, you develop self-awareness and self-regulation, which are the foundation of trustworthiness, integrity, and openness to learn.

The formulation of your personal balanced scorecard gets special attention in Chap. 4. It entails the translation of your personal ambition into manageable and measurable personal objectives, milestones, and improvement actions in a holistic way. Through your personal balanced scorecard, you can govern yourself effectively and become more disciplined, more effective, more responsible for yourself, and more ethical. Chapter 5 describes the implementation and cultivation of your personal ambition and personal balanced scorecard according to the Plan-Deploy-Act-Challenge cycle. This step is to govern yourself effectively based on your personal ambition and personal balanced scorecard.

You should reflect your true self and must adhere to the moral and behavioral code set down by your personal ambition. In Chap. 6, we discuss the balance between your personal ambition and your personal behavior and actions (alignment with yourself). When people find harmony between their personal ambition and their behavior/actions, they will not come into conflict with their conscience. This process will help you to become in harmony with yourself, which is the foundation of integrity, honesty, trustworthiness, credibility, transparency, and charisma.

Part II begins with Chap. 7, in which we focus on the definition and formulation of the corporate ambition. It entails the soul, core intention, and the guiding principles of the organization and encompasses the corporate mission, vision, and core values. The formulation of the corporate balanced scorecard gets special attention in Chap. 8. This encompasses the related company critical success factors, objectives, performance measures, targets, and improvement actions, which are divided into four different perspectives. The corporate balanced scorecard is needed to improve the business and governance processes continuously based on the corporate ambition.

Chapter 9 describes the implementation and cultivation of the corporate ambition, corporate balanced scorecard, and corporate governance according to the Plan-Deploy-Act-Cultivate cycle. This step is to govern your organization effectively based on the corporate ambition and corporate balanced scorecard. This chapter focuses also on the implementation of formal corporate regulations, procedures, and guidelines.

Chapter 10 is dedicated to the balance between your personal ambition and the corporate ambition (alignment with your organization). The emphasis here is aligning personal ambition with corporate ambition and creating uniformity of personal and organizational values. This will create a strong foundation of peace, integrity, engagement, and learning upon which creativity and growth can flourish, and life within the organization will become a more harmonious and ethical experience.

Appendices 1 till 19 provide examples, procedures, and checklists that can be used to develop and implement corporate governance codes successfully.

Chapter 2
Authentic Governance Model

It has become dramatically clear that the foundation of corporate integrity is personal integrity.

—Sam DiPiazza, Former CEO of PricewaterhouseCoopers

The word governance has been derived from the Greek verb *κυβερνάω* which means *to steer* and was used for the first time in a metaphorical sense by Plato. In this book governance will be defined in holistic and authentic terms, namely *the systematic process of continuous, gradual, and routine improvement, steering, and learning that lead to sustainable high performance and ethical excellence*. We make a distinction between authentic personal governance and authentic corporate governance. *Authentic personal governance entails the systematic process of continuous, gradual, and routine personal improvement, steering, and learning that lead to sustainable high personal performance and ethical personal excellence*. Personal conduct is part of authentic personal governance, the ability to discern right from wrong and the commitment to do what is right, good, and proper. *Authentic corporate governance entails the systematic process of continuous, gradual, and routine corporate improvement, steering, and learning that lead to sustainable high corporate performance and ethical corporate excellence*.

So, authentic governance is a continuous voyage of discovery, involving continuous, gradual, and routine improvement, steering, and learning. It is about winning through good authentic governance and a journey towards a happier and more successful life for individuals and ethical corporate excellence. Authentic governance differs from traditional corporate governance concepts (e.g., Monks & Minow, 2012; Kim, Nofsinger, &, Mohr, 2009; Tricker, 2012; Larcker & Tayan, 2011), which focus mainly on bureaucratic regulations, procedures, and policies and which insufficiently consider the importance of authenticity, holistic approach, and alignment with human capital, needed to achieve enduring high corporate performance and ethical corporate excellence. When these traditional bookkeeping concepts are being used, the results are cosmetic and sometimes even have an adverse effect.

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Sustainable corporate governance will be achieved only if the personnel change inwardly and personal integrity has become a way of life. The aim here is maximum commitment, devotion, personal integrity, and self-responsibility on the part of all involved as well as the encouragement of continuous learning and improvement.

Corporate governance should not only be based on formal regulations, procedures, and exhaustive guidelines. As demonstrated by Enron and others, ethics programs provide no protection from potentially catastrophic ethical failures. Sustainable corporate governance starts with personal integrity. It must be an informal self-learning process and a way of life based on alignment with yourself and alignment with your organization. This ethical thinking should be promoted and communicated within the whole organization. In this way ethical behavior will become a routine in the whole organization, and leaders and employees will gain more understanding about their self-responsibility with regard to ethical behavior and personal change. They will understand that it is their responsibility to act ethically, on duty as well as off duty. Authentic governance is a more sustainable, comprehensive, and holistic approach to ethics and social responsibility. This integrated governance system will create a paradigm shift in the organization and will continually impact the employee's transformational process. It will work as a catalyst to accelerate the transformation of the personnel into committed and ethical executives and employees and will create a stable basis for a real learning organization.

This chapter emphasizes the introduction of an organic, holistic, and authentic governance model, which provides an excellent framework and road map to develop, implement, and cultivate personal and corporate governance in a sustainable way. This new model is derived from Rampersad (2003, 2006, 2009) and consists of the following four phases (see Fig. 2.1), which are the building blocks of sustainable corporate governance:

1. **Authentic Personal Governance:**

   a. **Personal Ambition:** This phase involves a soul-searching process based on thought, introspection, and self-reflection, supported by a breathing and silence exercise. Question which you can ask yourself are as follows: Who am I? What do I stand for? What makes me happy? What do I live for? Why do I want to lead? And what's the purpose of my leadership? If the honest answers on the last four questions are power, prestige, and money, you may be at risk for your company. The result of this phase is the formulation of your personal mission, vision, and values. On the basis of insights acquired through this process, you develop self-awareness and self-regulation, which are the foundation of trustworthiness, integrity, and openness to learn.

   b. **Personal Balanced Scorecard (PBS)**: Personal ambition has no value unless you take action to make it a reality. Therefore, the emphasis in this stage is developing an integrated and well-balanced action plan based on your personal ambition to realize your life objectives. It's about translating your personal ambition into action. Personal governance without continuous improvement of yourself based on your PBS is merely cosmetic and will not

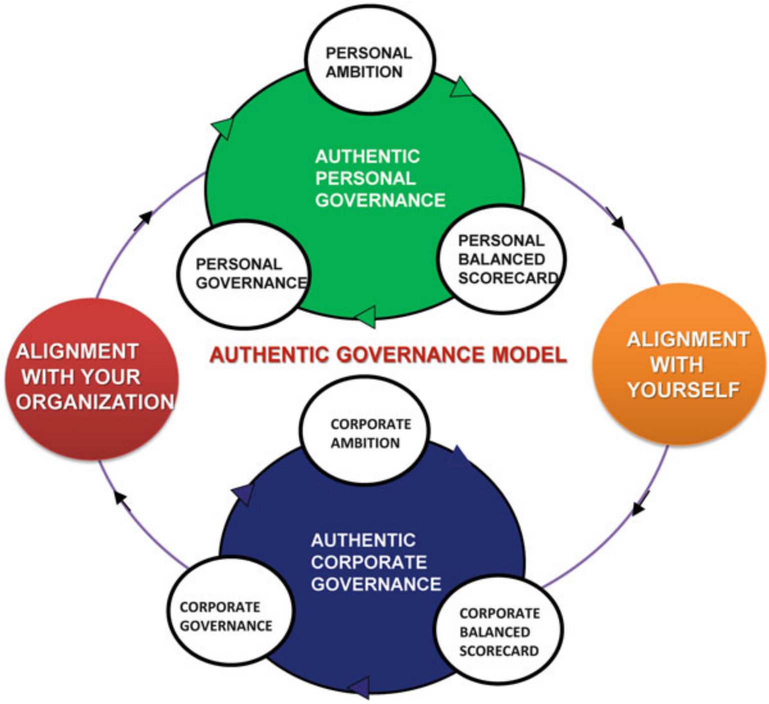


Fig. 2.1 Authentic governance model (© Hubert Rampersad)

lead to your sustainable and ethical growth. Your PBS entails your personal critical success factors that are related to your personal ambition and your corresponding objectives, performance measures, targets, and improvement actions (Rampersad, 2003). It is divided into the four perspectives: internal, external, knowledge and learning, and financial perspectives. Your PBS translates your personal ambition into manageable and measurable personal objectives, milestones, and improvement actions in a holistic and balanced way. Through your PBS, you can govern yourself effectively and become more disciplined, more effective, more responsible for yourself, and more ethical.

c. **Personal Governance:** Personal ambition and personal balanced scorecard have no value unless you implement them to make it a reality. Therefore, the next step is to implement, maintain, and cultivate your ambition and PBS to govern yourself effectively. This entails personal governance, the systematic process of continuous, gradual, and routine personal improvement, steering, and learning. It focuses on your private life and business life. To guide you in this process, we have introduced a unique learning cycle called the Plan-Deploy-Act-Challenge cycle (PDAC cycle), which should be followed continuously (Rampersad, 2003, 2006, 2009). To live in accordance with your personal ambition and related PBS through its implementation using the PDAC cycle results in a journey towards self-awareness, integrity, self-esteem, and happiness. Your PBS needs constant updating to reflect the new challenges you take, the lessons you have learned, and the growth of yourself. Therefore, it's needed to repeat the PDAC cycle over and over again.

2. **Alignment with Yourself:** Aligning your personal ambition with your behavior and your way of acting is needed to develop personal integrity. You need to commit yourself to live and act according to your personal ambition and to keep promises that you make to yourself. Personal governance built on the person's true character is sustainable and strong. You should reflect your true self and must adhere to a moral and behavioral code set down by your personal ambition. This means that who you really are, what you care about, and your passions should come out in your personal ambition, and you should act and behave accordingly (you should be yourself) to build trust. Building trust starts with being true and authentic to yourself. When people find harmony between their personal ambition and their behavior/actions, they will not come into conflict with their conscience (Rampersad, 2009). This process will help you to become in harmony with yourself, which is the foundation of integrity, honesty, trustworthiness, credibility, transparency, and charisma.

   These two stages in the authentic governance model focus on personal leadership development by cultivating your inner compass.

3. **Authentic Corporate Governance:**

   a. **Corporate Ambition:** This phase involves defining and formulating the shared corporate ambition. It entails the soul, core intention, and the guiding principles of the organization and encompasses the corporate mission, vision, and core values.
   b. **Corporate Balanced Scorecard (CBS)**: The emphasis in this stage is developing an integrated and well-balanced action plan based on your corporate ambition to realize the corporate objectives. It offers a means to maintain balance between financial and nonfinancial measures and to connect strategic and operational standards. The CBS entails the related corporate critical success factors, objectives, performance measures, targets, and improvement actions, divided into four perspectives: financial, external, internal, and knowledge and learning. The CBS is needed to improve the business and governance processes continuously based on the corporate ambition in order to add value to customers and satisfy them.
   c. **Corporate Governance:** The next step is to implement, maintain, and cultivate the corporate ambition and CBS in order to govern your organization effectively, to deliver peak performance, and to create competitive advantage. This entails corporate governance: the systematic process of continuous, gradual, and routine corporate improvement, steering, and learning. To guide you in this process, we have introduced the Plan-Deploy-Act-Cultivate cycle (PDAC cycle), which should be followed continuously. This stage focuses

also on the implementation of formal corporate regulations, procedures, and guidelines (Hussain, 2007, 2009, 2011). To operate in accordance with the corporate ambition and related CBS, through its implementation using the PDAC cycle, results in a journey towards sustainable business success.

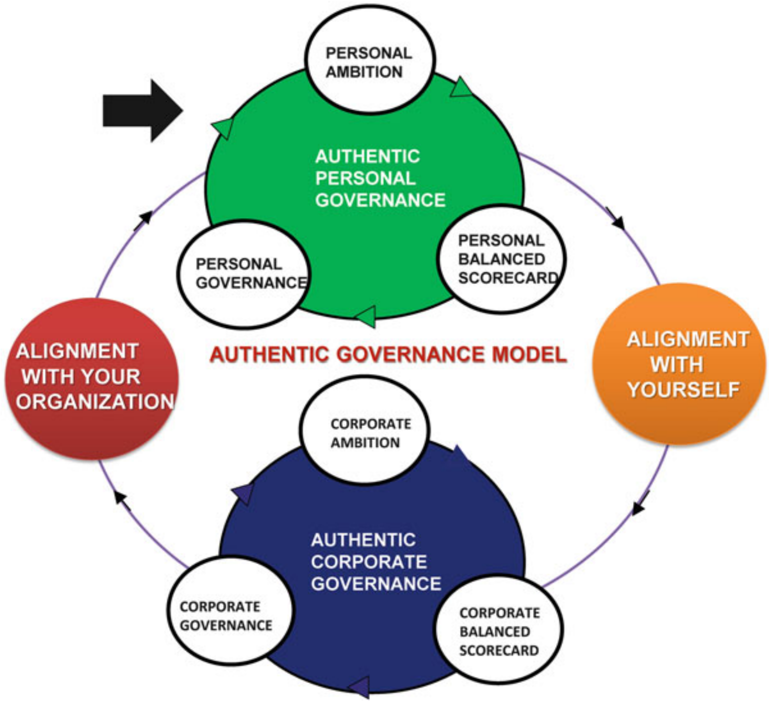
4. **Alignment with Your Organization:** The emphasis in this final stage is aligning personal ambition with corporate ambition and creating uniformity of personal and organizational values. It's about aligning personal governance with corporate governance and getting the optimal fit and balance between these two activities in order to enhance labor productivity, to create a climate of trust, and to stimulate engagement, commitment, integrity, and passion in the organization. This is needed because staff members don't work with devotion or expend energy on something they do not believe in or agree with. If there is an effective match between their interests and those of the organization or if their values and the corporate's values align, they will be engaged and will work with greater commitment and dedication towards realizing the corporate objectives (Rampersad, 2006). Identification with the corporate ambition is the most important motive for them to dedicate themselves actively to the corporate objectives and to maximize their potential. Aligning personal ambition with the corporate ambition has an impact on the organizational bonding of the employees. It energizes them and gives them the proud feeling that they count, that they are appreciated as human beings, and that they make a useful and valuable contribution to the organization. Employees are stimulated in this way to commit, act ethically, and focus on those activities that create value for clients. This will create a strong foundation of peace, personal integrity, and stability upon which creativity and growth can flourish, and life within the organization will become a more harmonious experience.

The effective combination of all these four phases creates a stable basis for a high-performance and ethical organization. As we can see from Fig. 2.1, the authentic governance model gives us insight into both the way authentic governance can be developed effectively and the coherence between its different aspects. After the last phase is completed, the cycle is again followed in order to fine-tune the elements with its surroundings on a continuous basis. By doing this, you will constantly improve your ethical performance and continuously satisfy yourself and others on an ongoing basis. The organization will also constantly improve its ethical performance and continuously add value to its clients.

An illustration of the importance of this authentic governance model: Of the 140 businesses recognized by the Ethisphere Institute as the 2013 World's most ethical companies, Aflac and Starbucks have received this honor every year between 2007 and 2013. They have been judged to have not only exemplary ethical standards and policies but also consistently high ethical practices. Their corporate governance codes are not empty words, but represent active coordinates in maintaining an ethical business culture, based on effective ethical leadership, personal integrity, and the alignment of personal governance with corporate governance.

In the following chapters, each of the phases in the authentic governance model will be discussed in depth.

Part I
Authentic Personal Governance



"The qualities of a great man are vision, integrity, courage, understanding, the power of articulation, and profundity of character".

—Dwight David Eisenhower

Chapter 3
Personal Ambition

"Integrity has no need of rules."

—Albert Camus

You need to keep your emotions and behavior in order and redefine yourself in order to govern yourself effectively. This soul-searching process starts with defining your dream, purpose in life, values, and key roles and acting accordingly. Your personal ambition is the starting point, core intention, and the guiding principles of personal governance. Defining and formulating your personal ambition is about working out your destiny. By accepting your destiny and responding to it with love and passion, you will fulfill your intense desires and become happy. It is also about making a positive emotional connection with yourself and change yourself inwardly to make a positive impact on others.

This chapter emphasizes your personal ambition, which is the first stage in the authentic personal governance journey (see Fig. 3.1). It is primarily concerned with defining and formulating your personal ambition in an exciting and persuasive manner, according to Hubert Rampersad's authentic personal branding methodology (Rampersad, 2009, 2010).

Remember this: Everything starts with a dream. You will become big if you dream big and you will remain small if you dream small. You will not be successful in life if you don't have a dream. You are hallucinating if you have a dream but have not put this into action. Your dream is related to a higher calling. Everyone has a higher calling, a so-called inner assignment. We should be aware of this higher calling and must have the courage to follow it in order to be successful in life. Remember what Oprah Winfrey said: "*I've come to believe that each of us has a higher calling that's as unique as a fingerprint - and that the best way to succeed is to discover what you love and then find a way to offer it to others in the form of service, working hard, and also allowing the energy of the universe to lead you.*" Your dream can be thought of as a synonym for your vision. Your mission is aimed at the being (is an articulation of what you're all about), and your vision at becoming. Your vision is a

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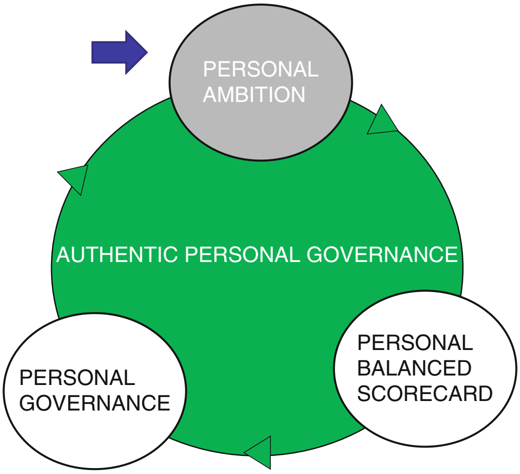


Fig. 3.1 First stage in the authentic personal governance model (Rampersad, 2009)

description of how you would like to realize your dream in the long term. Once you discover the core of your nature, your higher self, and know who you really are, you will find that it is possible to make every dream come true.

In Walt Disney's words, "*All our dreams can come true, if we have the courage to pursue them.*" Henry David Thoreau said: *"If a man advances confidently in the direction of his dreams to live the life he has imagined, he will meet with a success unexpected in common hours…Go confidently in the direction of your dreams. Live the life you have imagined.*" Ralph Waldo Emerson believed that "*Your dream is the germ from which all growth of nobleness proceeds.*" By discovering and formulating your higher self, you will become visionary and will find out that you have something unique to offer. Your work is to find out what that is and to work at it with passion and love. Here are some individuals who have defined and realized their dream successfully:

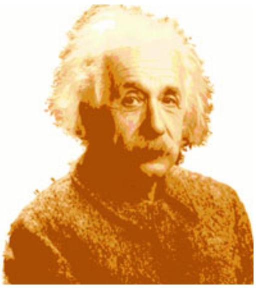
Bill Gates' dream about 30 years ago was a *PC on each desk in each house.* Recently he said, *"When I was 19, I saw the future and based my career on what I saw. I have been right…Personal computers have become the most empowering tool we have ever created. They are tools of communication, they are tools of creativity…and they can be shaped by their user.*"

Oprah Winfrey's dream was/is *female empowerment.* She has a reputation for doing good in the world and she walks her talk. *She* said: *"Create the highest, grandest dream possible for your life because you become what you believe. …Hold the highest vision possible for your life and it can come true … Go for your highest and greatest vision for your life and align your purpose with the flow of your life. …Follow your passion…Sooner or later, your passion is going to win out and nobody can stop you."*

Sheikh Mohammed bin Rashid Al Maktoum's dream is *transforming Dubai and the UAE into international hubs for commerce and finance.* The ruler of Dubai holds his country up as an example of extraordinary development based on excellent leadership, management, teamwork, and timely decision-making. He started his project by installing awareness in the people of the Emirates of the joint destiny of their small homeland. He said: *"We have learnt a lot. However, knowledge alone is not enough…We have a vision, which we exert all efforts to realize, of Dubai as a major trade center for the East and the West and we believe that Dubai is well qualified to play this great role…Every man should have a vision and objectives and set himself a certain time in which to achieve them. …When a man knows the way to the future, he should take the reins and advance, for this is our duty towards our people and our nation…We are very realistic, despite our big dreams, and we work hard to be the best, relying on God and our citizens.*"

Walt Disney's dream was *making life more enjoyable and fun.* He was a pioneer, innovator, creator, imaginative, and aesthetic person who followed his dream with passion; the possessor of one of the most fertile and unique imaginations the world has ever known. He said: "*I dream, I test my dreams against my beliefs, I dare to take risks, and I execute my vision to make those dreams come true."*

Akio Morita's dream was c*hange the world's image of the term "Made in Japan" from one of shoddy imitations to one of high technology and high reliability in miniature packages*. His passion was innovation. As a result of his passion he helped steer Japanese industries towards creation of new technologies and introduced various innovative products to the world. The cofounder of the Sony Corporation developed innovative products people did not even know they wanted: the Walkman, the Trinitron television, video watchman, the compact disc (CD), and more. With ingenuity in the design of electronics and cutting-edge business practices, it did not take long to see how or why his visions all became reality. He said: *"Don't let people hold you back with their expectations of what you should be. Believe in yourself and create your own Sony… Even though you may be facing terrible odds and are running out of money, find a way to continue and don't abandon your dream…Carefully watch how people live, get an intuitive sense as to what they might want and then go with it. Don't do market research. Trust your gut and going with what you think will work despite what the data and experts are telling you…Don't be afraid to make a mistake. But make sure you don't make the same mistake twice… If you are afraid of making mistakes, you will miss countless opportunities before you. The more mistakes you make the wiser you will become and the more successful you will be… Be different and unique. Become the expert for your niche and get known as the leading figure in your field."*



Albert Einstein's dream 100 years ago was *understanding the universe*. His genius fundamentally changed the way we look at the universe. He saw the universe as a puzzle, and he delighted in trying to solve its mysteries. All he needed to contemplate the cosmos was his most valuable scientific tool—his imagination. He said: "*Imagination is more important than knowledge*."

Mahatma Gandhi's dream was *achieving freedom through the path of nonviolence.* He was the man who played a significant role in achieving independence for India from the British Empire with his simplicity and strong willpower. He believed in living a simple life and proved to the world that freedom can be achieved through the path of nonviolence.

Nelson Mandela's dream was *a free and just society in South Africa.* He made conscious choices based on what he truly stood for and got credit for his relentless commitment to his dream. His dream of transforming the racist society of South Africa into a multiracial democracy lasted for more than 50 years. His determination to pursue that dream with passion and love, to keep fighting despite intense torments to both his people and himself, carried him to a day in May 1994 when he became the President of all South Africans.

These selected role models took the responsibility to identify their authentic dream and to respond to it with love and passion. They have proven that if someone has a clear authentic dream, responds to it with love and passion, has the courage to pursue his/her dream, has faith in him/herself, and lives according to his/her dream, this dream will guide that person's life and will result in purposeful and resolute actions.

Take the initiative and the responsibility to develop your dream as well, and keep it at the forefront of your mind each day. Anyone can deliver peak performances and be successful in life, because all of us have the genius within us to do so. Success is not something that will come automatically or something that the world will define for you. It's what you define in your ambitious dream and in the way you pursue this dream. Success doesn't come to you, you should go to it. You must have a dream in life, follow your heart and love what you do, if you expect exceptional success. You will surely have it, since people who dream it, hope it, believe it, wish it, fix it in their mind, visualize it, feel it, allow it, give their peak performance to it, and respond to it with love, passion, and integrity, achieve it.

Personal ambition is here defined as personal mission, vision, and key roles, which are divided into four perspectives: internal, external, knowledge and learning, and financial. Your personal ambition is your personal lighthouse, keeping you steadily on the course of your dream. You should formulate your personal ambition in an exciting and persuasive manner and make it visible. The biggest problem most people face is writing this down. You are almost twice as likely to accomplish your ambition if you write it down. So formulation is critical to govern yourself effectively. Take the time to write it down based on your answer to some questions which we will ask you later. Your personal ambition is an individualized constitution on which your life and behavior are based. This in turn forms the basis for determining your decisions about what you want to achieve and what the meaning of your life is. Formulating your personal ambition is a spiritual search for your identity and a voyage towards realizing your related dream. It includes a collection of challenges and ethical starting points that form the context for your actions. And the key to action is understanding yourself. Through your personal ambition and your related personal balanced scorecard, you can govern and master yourself and become more proactive, more disciplined, more effective, more responsible for yourself, and more ethical. Your personal ambition allows you to express your genius, dream, intentions, identity, ideals, values, and driving force, as well as to gain more insight about yourself. This self-knowledge influences your attitude towards others as well as your emotional intelligence.

By focusing inward and thinking about our actions—as undertaken through self-examination—we learn more and more about ourselves and therefore are able to function better. We learn not only more, but the truth about ourselves. As Thomas Huxley has said, *"Learn what is true in order to do what is right."* By formulating your personal ambition based on this holistic approach, you raise a mirror to yourself and strike a personal note in terms of self-examination. On the basis of insights acquired through this process, you become more ethical, proactive, and self-assured and will work smarter through self-learning and self-knowledge. We become more creative as we grow more conscious of ourselves—our real character, inner processes, and driving forces. The words of Galileo Galilei may also be recalled here: *"You cannot teach a man anything; you can only help him discover it in himself."* To fathom your life, or to get a better self-image and greater self-knowledge, together with challenges, your learning ability gets greater. This leads to inner harmony. The more innovative an individual wants to be, the more he/she should develop self-knowledge.

Self-knowledge or self-image includes self-awareness *and self-regulation.* Self-awareness is the ability to recognize and understand your strengths, weaknesses, needs, values, ambitions, moods, emotions, and drives, as well as their effect on others. Self-regulation is the ability to control or redirect disruptive impulses, feelings, and moods. Self-awareness and self-regulation are the foundation of self-governance and self-management and have an impact on self-confidence, trustworthiness, integrity, and openness to learn. It is an inner, spiritual learning process, which is related to both emotional and spiritual intelligence.

People with a high degree of self-awareness recognize how their feelings affect them, others, and their performance; they understand their clients; they are honest, proactive, innovative, and goal oriented; and they speak openly, have self-confidence, and take calculated risks. People with a high degree of self-regulation are able to create an environment of trust and fairness, can master their emotions, and are action oriented, trustworthy, and very effective in leading change.

This inner process starts with self-knowledge, or *knowing*. By routine application of your personal ambition and personal balanced scorecard, self-knowledge will lead to *wisdom.* Between knowing and wisdom lies an enormous distance which can be reduced by systematic application of the authentic governance system. This will also help you to use and balance between the left and right sides of your brain. The left half of your brain has mainly an analytical, logical, and quantitative function, while the right half of your brain has an intuitive and holistic function. Many people do not have a proper balance between the left and right sides of their brain. Most people only use the left side of their brain; because of this, they miss opportunities that allow them to become more adept at using the right hemisphere of the brain and to deal with complex problems in an integrated way. Your personal ambition relates specifically to the right side of the brain, while your personal balanced scorecard has to do with the left side of your brain. Defining your personal ambition encourages you to start acting intuitively, thus making more effective use of the right side of your brain. Research has shown that top managers who believe in their intuition and make decisions intuitively are usually the most successful.

Your personal ambition allows you to formulate your dream, key roles, purpose in life, uniqueness, and values honestly and to make these available to you. Once completed, your personal ambition impacts your personal well-being and success at work and in the rest of your life. It enables you to distance yourself from your mind-set and to listen attentively to your inner voice. It also allows you to unlock your potential, to change your behavior, to unlearn bad habits, to let go of things, and to change your future course.

Your personal ambition must result in purposeful long-term actions and efforts to realize your dreams. It gives direction to your efforts. A possible way to formulate your personal ambition is by identifying some examples where you have had personal success in recent years (in your work and private life). Ask yourself where you have added value to others and made a difference. Write them down and identify common themes. Also develop a list of values that you believe identify who you are, and narrow these to a few of the most important values. Your values are the principles by which you live your life, which affect the way you think, feel, behave, and make decisions. It's about what you believe, what you are willing to do to achieve your life objectives, what is important to you, what you hold to be true, and what you respect. Your values must be included in your personal ambition statement. This statement also includes your Personal Code of Ethics.

We will now describe the way to define and formulate your own personal ambition. It encompasses your personal mission, vision, and key roles, divided among four perspectives. These perspectives should be in balance and are of essential importance to your self-development, personal well-being, and personal governance. They are (Rampersad, 2003):

1. *Internal: your* physical health and mental state. How can you control these in order to create value for yourself and others?
2. *External:* relations with your customers, spouse, children, friends, manager, colleagues, and others. How do they see you?
3. *Knowledge and learning*: your skills and learning ability. How do you learn, and how can you remain successful in the future?
4. *Financial:* financial stability. To what degree are you able to fulfill your financial needs?

These four basic perspectives form an integral part of your personal ambition and personal balanced scorecard. Figure 3.2 shows the personal ambition framework, including the related ambition questions. These questions seem easy, are difficult to answer, and nevertheless are central to your sense of self. Imagine stepping outside of your physical body, taking a look at the real you, and asking yourself some of the abovementioned questions. Listen carefully to the answers of your inner voice. To help you in this process, we are including a breathing and silence exercise in this chapter to help you think deeply and to get energy to formulate and implement your personal ambition successfully.

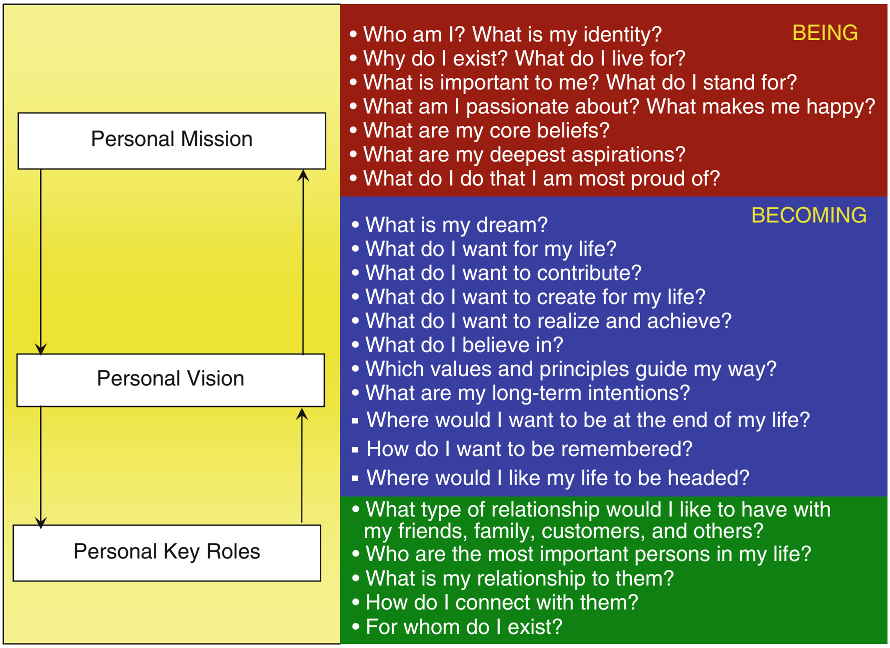


Fig. 3.2 Personal ambition framework (Rampersad, 2009)

Personal ambition is a set of guiding principles which clearly state what your dream is, where you are going, who you are, what you stand for, which key roles are you fulfilling in life, etc., and which also embody your values. The formulation of your personal ambition is most effective when it complies with the following criteria:

- Your personal vision motivates you, your personal mission inspires you, and your key roles guide your relationship with others.
- Your personal vision is about becoming and your personal mission about being.
- The four perspectives—financial, external, internal, and knowledge and learning—are a part of it.
- The emphasis is on unselfishness *and* authenticity.
- Your values should explicitly be included in your personal vision, mission, and key roles.
- Is specific to each person and includes ethical starting points, with an emphasis on your dream, uniqueness, genius, skills, principles, and values.
- Personal mission is short, clear, simple, and formulated in the present tense; keep your mission statement limited to one sentence and no more than 25 words.
- Is unique for each person and recognizable as such to others.
- Is formulated positively.
- The mission is not time bound, while the vision is (approx. 10 years).
- Personal vision is ambitious and should give direction to personal initiative and creativity and combines personal power and energy.

- Personal mission indicates how a person wants to distinguish him or herself in society.
- Is based on self-image, self-knowledge, self-acceptance, and self-development; it requires a positive image of ourselves and of others.

The importance of this personal ambition development process can be illustrated by the following statement of McNally and Speak (2003): "*When someone's life is purposeless, when they exist with no vision for the future, there is no grounding for their values, no motivation to act, and nothing that inspires the desire to enrich their own lives and the lives of those who surround them. Any effort to be authentic in these circumstances, therefore, is a meaningless endeavor. On the other hand, if you believe that there is a purpose to your life, that what you envision yourself contributing to the world is important, that your values have depth and substance and merit, then it's much easier to feel inspired to discover ways to become more effective… Rediscovering what lights you up internally is important in this process. It reignites your passion and makes you come alive. …Many people are born, but few people truly live. …Envision, work for, and fight for the freedom to choose a future that reflects the way you want to live and the life you truly want to lead. Life is never richer, fuller, or more rewarding than when you are moving faithfully and persistently toward a compelling vision. When you are purposefully creating, you become fully alive.*"

The biggest hindrance in creating our personal ambition is our own thinking. Most people don't spend much time thinking about their life. Henry Ford said, *"Thinking is the hardest work there is, which is probably the reason why so few engage in it."* How much time do you commit each day—each week—to *really* think about your life? If you're like most people, your answer is not much time at all. We are too preoccupied and do not really create an atmosphere of silence for just a few minutes every day to think about ourselves and to listen to our inner voice. Although this voice is present in all of us, it cannot always be heard because (1) most of us are not capable of hearing this voice because we are too focused on the outside world and (2) the inner voice is drowned out by the noise around us. To hear your inner voice, you must tune into the same wavelength in which your spirit communicates with yourself. Abraham Maslow expressed himself in this manner—*"There exists a personal 'I' that which I sometimes call 'listening to your intuitions'. This means: letting your own I emerge. Most of us do not listen to ourselves but to the interrupting voice of others. You will discover that all knowledge is contained in life itself."* Oprah Winfrey advises people in her talk show: "*Take five minutes every day in the morning to listen to your inner voice directing your life… Be silent enough to hear this voice, be quiet, part of your responsibility is to honor the quiet inside yourself so you can hear the call. People are too busy…you haven't even given yourself even five minutes to hear…take five minutes to center yourself in the morning…set your intention every day…if you don't have five minutes, you don't deserve to have the life of your dreams.*"

Rampersad (2009, 2010) has introduced an integrated breathing and silence exercise, which will assist you in turning your attention inward, to give you control over your awareness, to let you think deeply, and to create an atmosphere in which you can listen attentively to your inner voice. You have the responsibility to respond to this voice, and you must have the courage to follow through. By formulating your personal ambition and through reflection on it through the breathing and silence exercises, you will discover yourself and get a better hold on your life as your self-awareness increases. Awareness is your inner voice that selectively chooses internal and external events for processing. Awareness consists of energy and information in the form of thoughts. As Abraham Maslow once said: *"What is necessary to change a person is to change his awareness of himself."* Formulating your personal ambition is primarily done by transcribing your inner voice after contemplating a couple of probing the mentioned personal ambition questions. By paying attention to your own thoughts by way of a breathing and silence exercise, you can discover your identity, and you will be able to distance yourself from your mindset. Through this exercise, you learn to look at life with new eyes and can perceive what goes on within you. Because of this, you will know where you stand in life. Formulating your personal ambition can serve as a crowbar to pry off your rusty prejudices which block your creativity. You will be better equipped to create your future and discover a destination for yourself. After all, only if you know yourself will you be able to discover your talents and develop yourself. Then you can put them to the service of yourself and others.

There are several forms of breathing and silence exercises. In the following boxed text, we show you a simple breathing and silence exercise, which has proven to be very effective.

Breathing and Silence Exercise (Rampersad, 2009)

Step 1: Breathing Exercise

1. Look for a quiet spot with fresh air and make sure that you will not be disrupted.
2. Sit in a comfortable chair with an upright back, and keep your back straight and your shoulders and neck relaxed.
3. Gently rest your hands on your knees, with your palms upward and close your eyes.
4. Breathe deeply through your nose according to the following rhythm: inhale deeply during a count to four (your stomach fills like a balloon), hold your breath during four counts, and exhale fully and slowly during a count of four (your stomach flattens again) and stop for two counts. Focus on the rhythm of breathing in and out.
5. Focus your attention entirely on your breathing during this process and observe how your life energy flows through your body. During breathing you will become more relaxed. Concentrate on the feeling of relaxation in your whole body (face, shoulders, hands, feet, etc.).
6. Repeat this process for 10 min.

(continued)

(continued)

Step 2: Silence Exercise

1. After finishing the breathing exercise, remain in your sitting position with your back straight, relax your arms, keep your eyes closed, and breathe normally through your nose.
2. Focus entirely on your thoughts; do not concentrate on anything else. If thoughts do enter, do not force them out, but simply let them pass like clouds making way for the beautiful blue sky.
3. Allow your thoughts to come and go, including the thoughts related to the personal ambition questions.
4. Be open to all images that come up in your mind. Imagine that you are in a garden and that a wise man approaches you who, after introducing himself, asks you some of the personal ambition questions. Listen carefully to the answers of your inner voice and write these down immediately after this exercise.
5. Open your eyes slowly after 10 min and write down the answers of your inner voice in a diary. The purpose of this diary is to be able to use this information to develop or update your personal ambition statement and keep record of your experiences and progress in each session.

If you are being coached during this process, allow this person to help you with the breathing and silence exercise by:

- Counting softly.
- Reminding you to allow your thoughts to come and go.
- Asking you several of the personal ambition questions that are appropriate for you and to pause between the questions to allow time for thought. Answer the questions honestly.
- Helping you with the selection of these questions.
- Helping you to keep record of your experiences and progress during the exercise.

All the seemingly simple personal ambition questions are difficult to answer, when people are not open, do not want to make an effort to find out what they want from their life, and are blind to it. The breathing and silence exercise is meant to create an atmosphere of silence and inner peace, so that you will be able to answer these questions. By doing these exercises daily, you will be able to achieve a lot of things on your own. This exercise allows you to think deeply about yourself and makes you aware of yourself and your core beliefs. By questioning yourself and listening intently to your inner voice, which systematically answers the questions for you, you will be able to discover and change your obstructive beliefs.

By doing this, you will gain more insight into the workings of your mind and the influence this has on your behavior, thought, and learning ability.

In the following sections, personal mission, vision, and key roles will be discussed in depth.

Personal Mission

Your personal mission is about being and giving meaning to your life. It encompasses your philosophy of life and your overall objectives, indicating who you are; the reason for your existence; why you are on earth; what you stand for; what makes you unique, special, and different; what is decisive for your success; what your unique talents are; what your overall life objectives are; what your life purpose is; what do you live for; what your core beliefs are; what your deepest aspirations are; what makes you happy; how do others see you; and what do you do that you are most proud of (Rampersad, 2006). "Who am I?" is an identity question. It initiates self-examination of your personal identity (the unique position you find yourself in) and a voyage of discovery. As Socrates said: "*The unstudied life is not worth living," and "If you live without studying life, it is not worth calling it life*."

To get an accurate picture about your mission, find out how you are introduced to others and what your friends, families, and colleagues say about you when you are not around. Define what you stand for within your chosen field and what is unique about you, what your purpose in life and main objectives are, and what makes you different. How do others perceive your values? What do others gladly pay you to do? Reflect on all these questions and answer them honestly. This takes a bit of thinking and self-knowledge.

This process is closely related to *spirituality*. Spirituality is the manifestation of the perfection that is already present in you. It means realizing your inner essence. Religion is something external to you, whereas spirituality is something that is within you. Spirituality is needed in the modern world of business because it provides greater intuition in making tough decisions. One of Deepak Chopra's (1995) spiritual laws of success is the law of the *Dharma*. Dharma is a Sanskrit word, which can be translated as "goal in life." This law has the following three components:

- You are on this earth to discover your real "me," to find out that your real "me" is spiritual. This lies beyond your ego. Go look for it.
- You possess unique talents, which no one else has. Discover them.
- Use these talents to serve mankind.

Bill George has this to say about ego: *"One of the things you have to do is to find a way to get egos out of the way, and it has to start with the CEO. People at the top of every large organization have strong egos. That's not just true of business. It exists in Congress, medicine, law."* According to Gary Jacobs (1998): "*There is a direct correspondence between man's inner life of thoughts, feelings* *and impulses—his consciousness—and the circumstances and events in this outer environment. The external situation is an extension of his inner consciousness expressed in outer life .... Man's ego acts as a knot dividing the individual from the world around, the inner from the outer.... The higher, less selfish, personal and egoistic one's motivation, the more he grows, and the more he receives."* Mahatma Gandhi once said that the ego should be at zero to be able to find inner freedom.

Your personal mission and vision have to do with your inner freedom, needs, and motives, as well as your self-awareness, imagination, conscience, and your priorities in life. Through your conscience, you realize what your principles are, which can be effectively rendered through your talents. Thus, you will be able to give direction to your life and create your future through your personal ambition. Remember what Peter Drucker said: "*The best way to predict the future is to create it*." Your personal ambition needs to be formulated in such a way that you will be stimulated to reflect on your life and on everything you undertake.

In this book we use a fictitious person, named John Miller, as an example. He is a bank manager, married, and father of two children. We will also use his personal balanced scorecard and personal governance and the related corporate balanced scorecard, corporate governance, and alignment system of his Royal Standard Bank as example throughout this book as a business case. Royal Standard Bank is also a fictitious company name. Take a look at John Miller's personal mission statement below.

John Miller's Personal Mission

To live with integrity and mean something to others.

Personal Vision

Your personal vision statement is a description of the way in which you want to realize your dream in the long term. It indicates where you are going; which values, beliefs, and principles guide you on your way; what you want to achieve; what you want for your life; what your long-term intentions are; what talents, skills, and experiences you need to add value to others; where you want to be at the end of your life; what you hope to become; where you would like your life to be headed; the ideal characteristics you want to possess; your ideal job situation; and what you want to be (Rampersad, 2009). Ask yourself these questions and answer them honestly. Also, identify the attitudes you need to change and understand how to make your values relevant to others. Your personal vision takes care of inner guidance and determines today's actions in order to reach the most desired future. It functions as an ethical compass, which gives meaning to your life. It is a concrete translation of your inner longings and keeps in mind the four aforementioned perspectives. Take a look at John Miller's personal vision statement below. We hope it will inspire you.

John Miller's Personal Vision

I want to realize my mission in the following way:

- Keep my physical and mental condition in shape.
- Serve as a role model for others, earn their respect, and always serve out of love.
- Accepting new challenges continuously and keep on learning.
- Keep financial stability and ensure this for the future.

His values and the four basic perspectives—internal, external, knowledge and learning, and financial—are clearly recognizable in his vision statement.

Personal Key Roles

In order to build a strong personal ambition, you should identify the key relationships you plan to have with people who truly matter to you. These relationships are related to the essential roles in your life you wish to fulfill. The key roles indicate what type of trustworthy relationships you would like to have with your life companion, children, friends, customers, employer, co-workers, and others (Rampersad, 2009). They identify the most important people in your life, your relationship to them, how you connect with them, and how you want them to truly understand and acknowledge who you are and what you do. This relationship evolves and grows; the deeper the relationship, the better the mutual understanding. The most intimate relationship you have is with yourself. This is covered in your personal mission, which is based on self-awareness. You will strengthen the relationship with yourself and build personal integrity by aligning your personal ambition with your behavior and actions—with who and what you really are. This is about alignment with yourself (see Chap. 6). As you will discover in the next chapter, by integrating your key roles in the external perspective of your personal balanced scorecard, you will create *work-life balance*, for example, by spending more quality time with your spouse and children. Consequently, you will be valued at home. With this in mind, reflect on the following questions formulated by McNally and Speak (2003) that can help you define some important key roles:

– Regarding your *spouse or life partner*: What attracts me to this person? What are the affinities between us? What does he/she expect of me? What attitudes and behavior does he/she want from me? How am I relevant to her/him? How can I strengthen this relationship?
– Regarding your *children*: Where in childhood are they now, and what stage are they moving to? What in particular do they expect of me? How can I remain both distinctive and relevant in these relationships?

– Regarding your *friends*: Whom do I regard as my closest friends? What do they expect of me? How can I remain both distinctive and relevant in these relationships?

Make a list of key roles that you are fulfilling in life with your family, friends, and important others and select your top four key roles in this list, which fit your personal mission and vision. Take a look at John Miller's personal key roles below.

John Miller's Personal Key Roles

In order to achieve my ambition, the following key roles have top priority:

Spouse: Be happy together with Sophia.
Father: Be a source of stability to Frank and Grace and support them in their striving for a happy life.
Manager: Help make the organization for which I work successful.

Miller's personal mission, vision, and key roles will be translated into actions (his personal balanced scorecard) in the next chapter.

Chapter 4
Personal Balanced Scorecard

"Integrity is not a conditional word. It doesn't blow in the wind or change with the weather. It is your inner image of yourself, and if you look in there and see a man who won't cheat, then you know he never will."

—John D. MacDonald

Once you have defined and formulated your personal ambition, the next step is to translate this into your personal balanced scorecard in order to make your ambition a reality. Personal ambition will be of no use to you without goal setting, continuous improvement of yourself, and implementing this according to the PDAC cycle. In this chapter, we will focus on the formulation of your personal BSC, which you can use to measure the progress of your performance and to govern yourself effectively. This entails the second stage in the authentic personal governance model; see Fig. 4.1.

The personal balanced scorecard concept was launch by Rampersad (2006). It translates your long-term ambition and values into short-term manageable, measurable, and concrete actions in a balanced way. It entails the related personal critical success factors (CSFs), objectives, performance measures, targets, and improvement actions, which are divided into the four perspectives: internal, external, knowledge and learning, and financial perspectives (see Fig. 4.2). It is an effective tool that you can use to govern yourself effectively by developing improvement actions to achieve your life objectives, keeping track of your progress of these actions, exploring your life, defining new career paths, reporting your key accomplishments, etc. The personal balanced scorecard provides you a road map that shows how to translate your personal ambition into actions and to capitalize on your strengths and eliminate your weaknesses. Use this framework to continuously take advantage of opportunities and challenges in your life, by selecting the CSFs from your personal ambition statement; defining your related life objectives, measures, targets, and improvement actions; and prioritizing these actions to provide maximum impact.

H. Rampersad and S. Hussain, *Authentic Governance: Aligning Personal Governance with Corporate Governance*, Management for Professionals,
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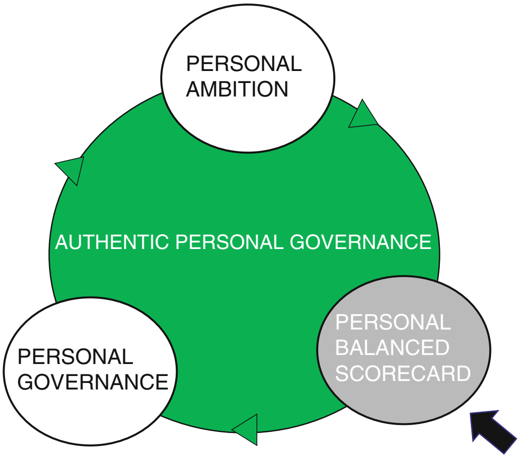
Fig. 4.1 Second stage in the authentic personal governance model



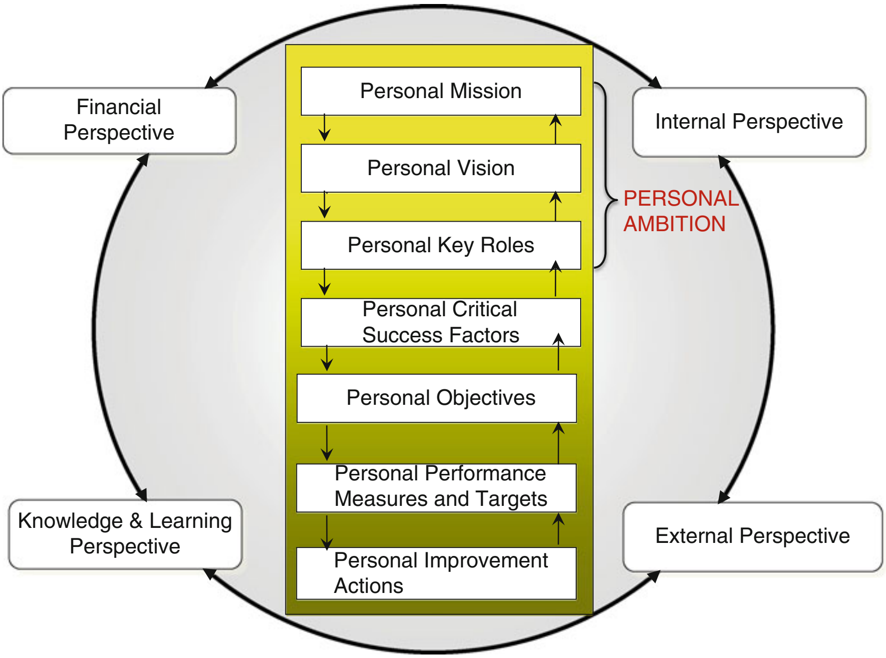


Fig. 4.2 Personal balanced scorecard framework (Rampersad, 2006)

In the following sections, each of the phases in the personal balanced scorecard framework will be discussed in depth. The personal ambition has been discussed in the previous chapter.

Personal Critical Success Factors

Personal CSFs are derived from the personal ambition. They are related to the four perspectives, internal, external, knowledge and learning, and financial. The personal CSFs form the bridge between the personal ambition (long term) and on the other side the personal objectives, performance measures, targets, and improvement actions (short term). Note the following related aspects:

- A personal balanced scorecard has a minimum of four CSFs (at least one per perspective).
- Every CSF has one or more related personal objectives.
- Each objective has one related performance measure.
- Each performance measure has one related target.
- Each target is linked to one or more related improvement actions.

The CSFs form milestones that should be realized. They are core competencies included in your personal ambition statement (the ones you actually operate from) and your idealized core competencies (the ones you think you should operate from), which you should further develop in order to make a difference in life. The crucial questions here are as follows: Which factors in my personal ambition are decisive for my success? What are my unique talents? Which factors are important for my well-being? Which factors are essential for the realization of my life objectives? And what are my most important competencies? Some examples of personal CSFs are financial stability, good physical and mental health, and professional ability.

Personal Objectives

Personal ambition needs to be tied to your personal objectives. These objectives should be stated in specific, measurable, achievable, relevant, and time-bounded (SMART) terms. The central questions here are as follows: Which measurable short-term personal results do I want to achieve? Which problems would I like to handle better? And what are my career goals and life objectives? Personal objectives describe a result that you want to achieve in order to realize your personal ambition. Your ambition is aimed at the long-term future and your personal objectives at the short term. Your personal objectives give your ambition direction and are derived from your personal CSFs. Your objectives are quantified through personal performance measures and targets. Performance measures and targets make this measurable and bound by deadlines. Some examples of personal objectives could be the following: be happy, improved leadership skills, inner peace, and greater knowledge.

Personal Performance Measures

Personal performance measures are standards to measure the progress of your personal objectives. With these measures, you can assess your functioning in relation to personal governance. Without performance measures and targets, it is difficult to govern yourself with feedback from others. Performance measures urge you to action and give you a certain direction. They measure the changes and compare this with the norm and thus, in time, give you information about steering yourself. This section of the personal BSC deals with the following questions: How can I measure my personal results? And what makes my personal ambition and objectives measurable? Table 4.1 shows an overview of possible personal performance indicators according to each personal BSC perspective.

Personal Targets

A personal target is a quantitative objective of a personal performance measure. It is a value that is pursued and then assessed through a personal performance measure. Based on the personal targets, you can get clear feedback about the progress of your improvement actions, which is needed to govern yourself effectively. Your key task here is setting specific timetables and deadlines for your performance measures. Targets indicate values that you want to achieve and depend on your level of ambition. Some examples of personal targets could be increase of 15 % over 2013, minimum 85 % in 2 years, and maximum 5 lb as per March 10, 2014.

Personal Improvement Actions

Personal improvement actions are personal strategies or initiatives used to realize your personal ambition. They are utilized to develop your skills, improve your behavior, govern yourself, and improve your performance. The central questions here are as follows: How do I want to achieve my personal results? Which improvement actions do I need to achieve this? What talents, skills, and experience do I need to add value to others? How can I develop my career successfully? How can I realize my personal objectives? How can I improve my behavior? How can I ensure that I learn continuously, individually as well as collectively? How can I get to know myself better?

To illustrate what has been said about the personal balanced scorecard, John Miller's personal BSC will be discussed in the next section. His personal BSC is displayed in Fig. 4.3.

Table 4.1 Examples of personal performance measures per BSC perspective (Rampersad, 2006)

Perspective	Personal performance measures
Internal	• Level of being inspired • Level of tension • Level of stress • Level of immunity to stress • Level of enjoyment • Level of laughing • Level of trust from my manager • Number of times I act with consideration versus acting without consideration • Number of times that I feel good in my skin • Number of times that I feel frustrated in my work • Level when I am irritated at work • Level of joy going to work • Number of hours jogging • Percent of mental absence • Body weight • Number of hours sleep • Frequency of sports activity • Number of new challenges • Number of uncontrolled emotions at work • Number of times being angry • Hours physical rest • Percent of sick leave • Number of times exercising • Frequency breathing and silence exercise • Number of cigarettes per day • Fat contents • Number of km/miles per month on a bicycle • Number of stomach muscle exercise • Number of times per month playing golf • Fitness score • Cholesterol level • Number of times feeling full of energy • Percent of my life in positive shape • Number of times intuitive impulses • Alcohol consumption • Percent safety incidents • Number of times at a psychologist/psychiatrist • Physical condition • My delivery speed • Number of processing mistakes • Throughput time of my work • Response time to a service request • Percent delayed orders

(continued)

Table 4.1 (continued)

Perspective	Personal performance measures
External	• Awareness score of my personal brand • Degree of customer satisfaction • Number of activities with the children • Number of times doing something together with my partner in life • Number of donations per year • Reliability of my services • Number of successful acquisition meetings • Number of appreciating and loving remarks from spouse • Level of satisfaction of others with regard to my actions • Perception score from others with regard to my cooperation with them • Level of satisfaction of my customers • Number of warnings from my manager • Number of productive hours at my work • Number of positive changes initiated by me • Number of times positive feedback received from my clients, manager and colleagues. • Availability • Accessibility • Number of open and good conversations with loved ones • Number of committee functions in social organizations • Number of satisfied customers • Level in which I feel that I have been of added value • Number of complaints from internal and external customers • Number of hours quality time with my family • Number of family outings • Number of arguments with my spouse • Number of good conversations with my loved ones • Percent of personnel who find they are working under effective leadership • Percent of colleagues that consider me to be a good colleague • Number of times given assistance to others • Number of times positive feedback related to my ethical behavior • Customer valuation score • Time between receiving e-mails and replying to them • Number of great friends • Number of new friends • Number of offensive remarks • Delivery reliability of my services • Satisfaction score of my colleagues and employees • Time spent with real friends • Time spent at home with my children • Number of times going out with children • Number of times that my children involve me in their decisions regarding their lives • Level of appreciation by colleagues • Percent of my personnel who feel they have challenging work • Percent of my customers who want to quit because of dissatisfaction • Percent of completed, on-time deliveries, according to specifications • Time needed to fix a complaint • Percent of customers lost • Number of visits to important customers • Number of meetings with customer groups to be informed about their demands, requirements, ideas, and complaints • Number of concrete objectives with regard to customer satisfaction

(continued)

Table 4.1 (continued)

Perspective	Personal performance measures
	• Number of customer contacts • Number of customer surveys • Percent returning customers • Percent customers satisfied with communication • Degree of customer loyalty • Costs associated with losing a customer or gaining a new customer • Number of customer complaints regarding my behavior • Number of concrete objectives with regard to customer satisfaction • Perception score from others with regard to appreciation of the added value that I contribute
Knowledge and learning	• Number of personal core competencies • Percent of learning objectives realized • Percent of improvement actions achieved • Number of time publicly sharing of knowledge • Number of violin lessons • Number of successful initiatives • Number of management courses followed • Percent of available management competencies • Percent of available strategic skills • Number of new management books read • Number of course days • Number of workshops and seminars attended • Number of required training courses • Number of articles published • Degree of client satisfaction with regard to my professionalism • Number of study days • Training costs • Number of effective initiatives as a manager • Number of effective initiatives implemented • Number of conscious learning moments • Sales based on newly acquired knowledge • Number of speaking engagements • Study expenditures • Percent of taxable income for investment in personal development • Ratio of number determined problems to solved problems • Number of solved problems • Number of suggestions implemented • Number of innovative ideas which added value for others • Time spent on reading, debating, discussing • Number of books read about spirituality • Number of successful strategic improvement proposals • Number of innovative ideas • Number of necessary skills • Average time that I stay in the same position • Percent of communication failures • Lead time for product development • Percent sales from new products • Time needed to launch a new idea on the market (time-to-market) • Experience level of my colleagues regarding knowledge exchange

(continued)

Table 4.1 (continued)

Perspective	Personal performance measures
Financial	• Return stock investments • Annual turnover own company • Ratio of earnings and expenses • Level of pension provisions • Level of financial buffer • Percent of deviation from the budget • Percent of income from new orders • Percent revenue from new products • Balance savings account • Number of bills paid late • Level of debt • Savings balance • Income growth • Ratio of income to spending • Earnings • Salary • Bonus level • Cash flow • Pension • Disability insurance • Investment level • Profitability: sales/costs + interests received • Effectiveness: actual result/expected result • Labor productivity: result/labor costs • Labor costs: hours x hourly wage • Daily rate as consultant • Level of financial assets • Percent of income for charities • Number of successful acquisitions • Level of household expenses • Number of chargeable hours • Number of unpaid “overhead” days own consulting firm • Percent revenue from new products • Time span between two paid consultancy orders • Effectiveness = actual result/expected result • Operational costs as a percentage of sales • Value added • Value added per work time

The position of his objectives, within the four perspectives, and their mutual relationships are made visible in his personal management system; see Fig. 4.3. It shows a framework in which his personal ambition, personal balanced scorecard, and strategic map are included. In this cause-effect chain, his personal objectives are interrelated and affect one another. An objective is used to achieve another objective, which will result in a final objective. His final objective is satisfaction.

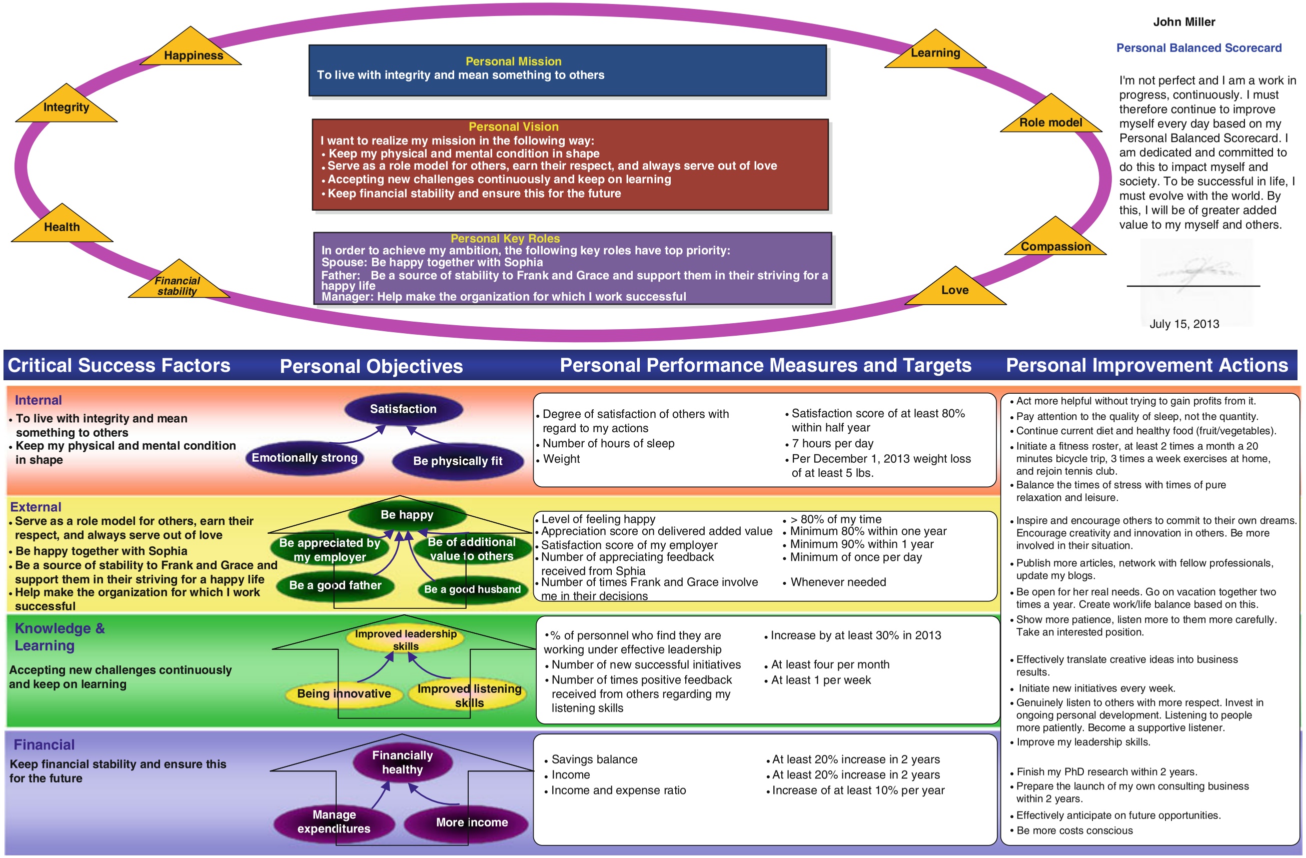


Fig. 4.3 John Miller's personal balanced scorecard

All his goals result in this final overall objective, which is related to his personal ambition. On the basis of this diagram, John is able to gain more insight into himself. It is also a handy tool in communicating his BSC to trusted persons. A trusted person is somebody who deserves your trust, who respects you, who will guide you, who gives you honest feedback, who has consideration for you, and who is a mentor with your best interests in mind and offers you good guidance based on your personal BSC.

In the next chapter, we will focus on the implementation, maintenance, and cultivation of your personal BSC in accordance with the Plan-Deploy-Act-Challenge cycle, in order to govern yourself effectively. It is about personal governance.

Chapter 5
Personal Governance

"The true value of a human being can be found in the degree to which he has attained liberation from the self."

—Albert Einstein

Personal balanced scorecard has no value unless you implement it effectively to make it a reality. This entails the third stage in the authentic personal governance model; see Fig. 5.1.

To guide you in this process, we will discuss the Plan-Deploy-Act-Challenge cycle (PDAC cycle) in this chapter, launched by Hubert Rampersad in his previous book (Rampersad, 2009, 2010). This cycle must be followed continuously to govern yourself effectively, improve yourself continuously, deliver peak performance, and steer yourself towards authentic personal governance; see Fig. 5.2. To live in accordance with your personal ambition and the related personal BSC through its implementation, using the PDAC cycle, results in a journey towards personal integrity, self-awareness, happiness, and success in life.

In the following sections, each of the phases in the plan, deploy, act, and challenge cycle will be discussed in depth.

Plan

First of all, you should recognize your responsibility to define, formulate, and update your personal ambition and related personal balanced scorecard. Prioritize the improvement actions in your scorecard to provide maximum impact.

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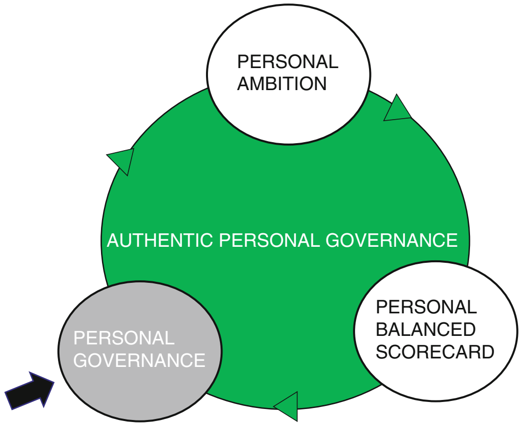
Fig. 5.1 Third stage in the authentic personal governance model



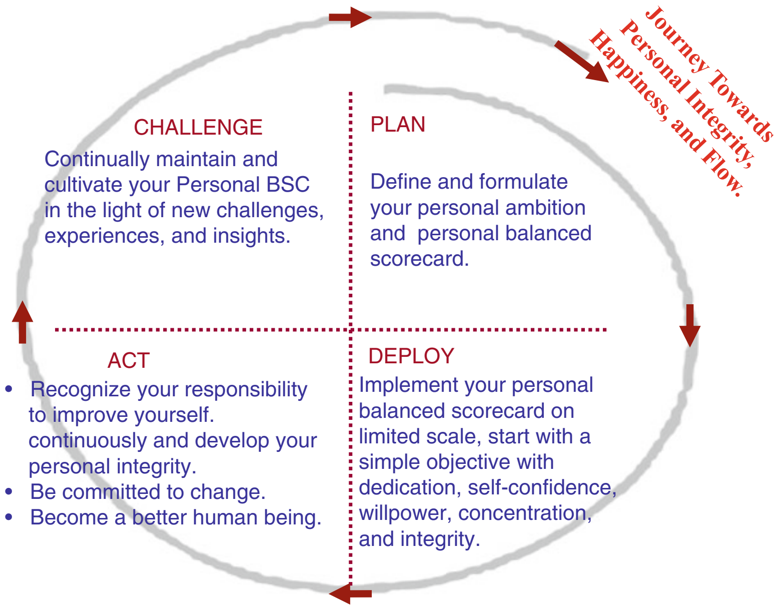


Fig. 5.2 The Plan-Deploy-Act-Challenge cycle (Rampersad, 2009)

Deploy

In this stage of the PDAC cycle, you implement your personal balanced scorecard on limited scale, keeping in mind the priorities that have been identified. Start with a simple objective and related improvement action with love, dedication, self-confidence, willpower, and concentration. Review the results according to the personal performance measures and targets you have defined in your personal balanced scorecard. Check to what extent you have realized your personal objectives. Check if the improvement action is working, and take action if it is not. Make fine adjustments in your ambition and personal balanced scorecard if needed. Reflect on the following questions in this stage: "*Do I act more ethical? Are opinions about my behavior and work stronger? Do I act consistently in accordance with my personal ambition and my values? How do others perceive me and my values?*" By constantly monitoring and evaluating your personal objectives and actions, you will govern yourself effectively.

If you have not been able to realize your objective, please do not worry about it. Just start again. Start with habits that restrict you and deliver poor results. Each morning when you rise, focus on a selected improvement action which you should then strive to implement during the day. Submit yourself with courage to the related objective, even when you run into resistance. Be determined in the realization of your personal objectives and do not give up. Choose individuals close to you, who you can trust, who listen effectively, and who give you honest feedback on your targets; these persons could be, for example, your spouse, children, manager, colleagues, or friends. Share your good intentions with them and ask them often for feedback. Use this feedback and your own observations to look for gaps and progress points, based on the personal targets in your personal balanced scorecard. Act in the next stage to close the gaps. In this way you will be staying on course. It will also become a habit to do right things right the first time if you evaluate your personal balanced scorecard regularly with trusted persons and learn from their experience. Think of three people, who can act as your trusted person, who give you inspiration and motivation for the realization of your objectives and improvement actions. Plan to meet with each one of them regularly. Listen enthusiastically to them, brainstorm with them, and take their counsel. Praise them for investing time and energy to offer you feedback.

Act

In this stage of the PDAC cycle, you pursue with your personal balanced scorecard with courage and faith in yourself; live up to your ambition and respond to it with love, integrity, and passion; and align your personal ambition with your behavior and actions in order to develop personal integrity (see next chapter).

Take actions if there is a gap between where you are and where you want to be. It could be you who should change (learn or unlearn) and listen more carefully. Develop your talents and skills to achieve your objectives. Use your personal balanced scorecard to improve yourself continuously based on the feedback that you get from trusted friends. Recognize your responsibility to improve yourself continuously and develop your personal integrity and be committed to change. It is your ethical duty and moral responsibility to change—not only for your own good, but also for your loved ones, your work, your organization, your country, and for the world that you are part of. You should be the change. Remember what Mahatma Gandhi said: "*We must become the change we want to see in the world.*" Use this system to coach and govern yourself effectively. You will improve steadily based on this. Implement your personal improvement actions, assess the results, document the lessons learned, and improve and monitor your actions, behavior, and thinking continuously. After a few weeks, you will notice small differences in yourself. In 2 months, the behavioral change will become firmly embedded. After 5 months, personal integrity and personal governance will be a way of life. Also in this stage, you should use the breathing and silence exercise.

When something adverse happens or someone tries to pull you off course, you quickly return to your chosen path with the full knowledge that you are moving in the direction that you have stated in your ambition and personal balanced scorecard. Use your time effectively based on your personal balanced scorecard, which is a plan for achieving your personal goals, actions, and priorities. Your personal balanced scorecard will help you to be ruthless with wasting time, and govern it more effectively. Drucker (1998) recommended that leaders concentrate on the few things that will produce the greatest results. Do first things first—and second things not at all. He offered the following tips to help you become a more effective leader:

- Get rid of those activities and people that cannot prove their productivity.
- Do not invest resources into activities that are unlikely to be productive in the future.
- Put your best people to work on the opportunities of tomorrow, not fixing the past.
- Get rid of everything else so you can focus on the few activities that, if done with excellence, will really make a difference in the future.

Express what you stand for to everyone you meet. Do this consistently. If you are inconsistent, people will not trust you. When you deliver on the promise you make, they will trust and value you.

Challenge

In this stage of the PDAC cycle, you need to cultivate and maintain your personal balanced scorecard in the light of new challenges, experiences, and insights. You need to monitor, refine, fine-tune, and cultivate this as you go along, figuring out which parts work and which don't. Once you have a track record, accept a larger challenge which is in line with your improved talents and skills and get on with it. This means selecting a more difficult objective and the corresponding improvement action from your personal balanced scorecard and act on it with love, passion, and integrity. This will make you happy. After all, when people are free to face challenges, they tend to be happier. Be conscientious in choosing a more challenging and inspiring objective in line with your improved skills when the current improvement action starts becoming boring.

Remember what Tony Dorsett said: "*To succeed… You need to find something to hold on to, something to motivate you, something to inspire you.*" Enjoy the experience and document what you have learned and unlearned during the execution of the improvement actions and celebrate the successes. Review your personal balanced scorecard regularly and sometimes return to earlier stages to refine your ambition. Also in this stage you should use the breathing and silence exercise and ask for feedback continuously. When you have accomplished all your goals, adjust your personal balanced scorecard and start over and repeat the PDAC cycle. In this way you will attract the opportunities that are a perfect fit for you, and you will realize your life objectives. You will also develop self-esteem (confidence and satisfaction in yourself) that will lead to happiness.

Implementation and cultivation of personal balanced scorecard in accordance with the PDAC cycle result in a process of total involvement with life. It will make you feel content with the challenging activity you are fulfilling in such a way that you will forget everything around you. This process is called "*Flow*" by Csikszentmihalyi (1990). Flow is the result of a conscious effort to conquer a challenge; it is the result of a search for optimum experiences, the constant discovery of new challenges, and the continuous development of new skills. Flow is governing your life without efforts. According to Csikszentmihalyi, someone is in flow when both challenges and skills are at a high level. People feel happier, more cheerful, stronger, more active, more creative, and satisfied in this situation. It has been hypothesized that happy people may be healthier both mentally and physically than less happy people. It is said that happiness lies in the rhythm of life and when life is a flow. By applying this authentic personal governance system, you will become in flow and live effortlessly. You will expand your individual awareness to universal awareness and govern yourself successfully.

The application of this authentic personal governance system also results in managing your intuition effectively. Weston Agor (1998) says on this: *"Tomorrow's managers will face extremely complex situations in which they will need to make decisions under circumstances where the complete data necessary for traditional decision-making process will be unavailable, inadequate, or too costly to gather quickly. They will be dealing with a changing world and a work-force that will make increasing demands for real participation in the decision-making process. Managers will need to rely less on formal authority and more on intuitive judgment in order to handle the shift to bottom-up, horizontal organizational communication with sensibility and persuasiveness. Managers will need a new set of skills to cope with this shifting environment. Until now, the predominant management approach has been the logical, analytical, left-brain style… Intuition will become more and more valuable during the coming period of surprises, complexities, and rapid changes. Intuition becomes more efficient as we become more open to our feelings and more secure trough experience in its ability to provide the correct cues. The first rule is to believe in it. The second rule is practice makes perfect. With effort and persistence, we can develop our intuition. The third rule is to create a supportive environment in which intuitive skills are valued."*

The boxed text below shows a number of tips to govern yourself effectively and for defining your Personal Code of Ethics.

Personal Governance Tips (Rampersad, 2009; Sharma, 2009)

- Understand yourself, formulate your personal ambition statement and related personal balanced scorecard, and govern yourself based on this and according to the PDAC cycle.
- Implement and cultivate your personal balanced scorecard routinely and improve and monitor your actions and thoughts continuously based on the PDAC cycle.
- Recognize your responsibility to make personal improvement and personal integrity a routine and a continuous process.
- Regularly evaluate your need to improve and the necessity of personal growth.
- Be committed to change and improve continuously.
- Learn to learn and to unlearn; learning and unlearning is a lifelong exercise.
- Ask for a trusted person's comments and improve yourself based on their feedback.
- Govern yourself like a business and be the CEO of your life.
- Live in harmony with your personal ambition.
- Keep promises that you make to yourself.
- Achieve behavioral changes and constantly challenge your own behavior.
- Make time in your schedule to improve and to help others to improve.
- Attend to your continued learning and see your job as a learning experience.
- Take advantage of learning opportunities and take initiatives.
- Maintain a positive attitude towards life and constantly evaluate your behavior.
- Perform the breathing and silence exercise regularly.
- Learn to be still and enjoy the power of silence for at least 10 min a day.
- Enjoy learning about everything from everyone.
- Demonstrate commitment and leadership, set an example, and act as a role model.
- Regularly assess your relationships with your family, supervisor, peers, subordinates, customers, and others.
- Be authentic, consistent, and proactive; make conscious choices based on what you truly stand for.
- Think positively and be flexible.
- Develop your communication skills and foster cooperation and communication.
- Treat others like trusted friends, with respect, restraint, and empathy.
- Turn your weaknesses into strengths.
- Empower yourself, upgrade your skills, and improve your imagination and creativity.

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- Be passionate and spontaneous in everything you do and love what you do.
- Avoid extreme behavior and remain calm.
- Trust or believe in yourself and in your potential and boost your self-esteem.
- Trust others, be trustworthy, and show transparency and accountability; find a balance between your personal ambition and your behavior. Live with personal integrity.
- Be the most honest person that you know; know your personal values and beliefs.
- Be truthful, patient, persevering, modest, and generous; be someone with a warm heart and great character.
- Have respect for others and speak honestly and well of others.
- Judge others fairly and correctly.
- Communicate effectively; the quality of your life is the quality of your communication with others and yourself.
- Show compassion and sincere consideration for others and develop long-lasting friendships by being a good person.
- Contribute to others; start with giving, rather than receiving.
- Treat everyone who crosses your path as if he/she is the most important person in your life.
- Develop the habit of punctuality; it reflects discipline and a proper regard for others.
- Speak less and listen more. You will learn much, as everyone we meet, every day has something to teach us. Listening is the beginning of all wisdom. Learning is listening effectively.
- Dedicate yourself to leaving a legacy to the world.
- Be an explorer; find pleasure in the things that others take for granted.
- Have courage and inspire others with your actions.
- Take anyone you think is highly effective and ethical as your role model. Visualize this person and act like him/her.
- Never feel that you have no time for new ideas; you are investing in yourself.
- Become an adventurer and revitalize your spirit. Take time out for the renewal of your mind, body, and spirit.
- Follow and trust your conscience and intuition.
- Never do anything you would not be proud to tell your mother.
- Know your best qualities and cultivate them.
- Never complain; be known as a positive, strong, energetic, and enthusiastic person.
- Fill your mind with thoughts of serenity, positivity, strength, courage, and compassion.

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- Create an image of yourself as a highly competent, strong, disciplined, calm, and decent individual.
- Schedule relaxation time into your week; spend time in reflection, unwinding, and recharging your batteries.
- Make time for the things that matter most; choose what is important and filter out what is of no value.
- Create work-life balance based on your personal balanced scorecard.
- Be disciplined in following the schedule of your personal balanced scorecard.
- Add at least one new thing to your resume monthly.
- Seek out knowledge. Knowledge is power. The more you know, the less you fear. The more one knows; the more one achieves.
- Read more, learn more, laugh more, and love more.
- Work in harmony with others and work hard; no success comes without hard work.
- Show your appreciation and respect for others.
- The essence of a person is his character; make yours unique, unblemished, and strong.
- Place greater importance on staying happy than amassing material possessions; be happy with what you have.
- Strive to be humble and live a simple, uncluttered, and productive existence.
- Be committed to what you are doing and to being a better parent, friend, and citizen.
- Be known as an idea person, willing to take on challenges and tackle them with passion and enthusiasm.
- Spend at least half an hour every day alone—in peaceful introspection, reading or just relaxing.
- Cultivate the habit of optimism.
- Develop a focused state of mind. Pay attention to your spiritual development so as to gain greater self-confidence.
- Give attention to the development of spirit, health, and useful activities; you cannot do good unless you feel good. When you are serene, relaxed, and enthusiastic, you are also more productive, creative, and dynamic.
- Dedicate yourself to higher knowledge and to the development of a higher level of consciousness.
- Do not waste energy on your ego.

In the next chapter, we will focus on the next important step towards authentic personal governance.

Chapter 6
Alignment with Yourself

> *"Integrity is telling myself the truth. And honesty is telling the truth to other people."*
>
> —Spencer Johnson

Research shows that unethical behavior of leaders is the most important cause of bankruptcy and financial failures. Researchers have concluded that the structure of any board of directors in terms of the personal integrity of its members and of the executive, nonexecutive, and independent directors has considerable impact upon the success or failure of a company. Therefore, the corporate governance codes around the world strongly advocate a focus on personal integrity development within organizations.

This chapter focuses the development of personal integrity, based on an integrity methodology developed by Hubert Rampersad (Rampersad, 2003, 2006). It is about reflecting on your true character and delivering on your promise included in your ambition statement. So it is about committing yourself to live and act according to your personal ambition and ensure that you deliver accordingly. People relate to you as your word and how you fulfill on that. If you say you will do something, you should do that with no excuses. Each time you make or break a promise, you are affecting your image. You should also keep promises that you make to yourself. If you break a promise to yourself, you will not have inner peace and will not develop personal integrity, charisma, and transparency. You have to live your values consistently on a day-to-day basis and show transparency and accountability. A personal ambition built on lies will crash (truth always comes out), and corporate governance built on the person's true character is sustainable and strong. To borrow Dwight Eisenhower's words: "A *person who values his/her privileges above his/her principles soon loses both*."

You should reflect your true self and must adhere to a moral and behavioral code set down by your personal ambition. This means that who you really are, what you care about, and your passions should come out in your ambition statement, and you

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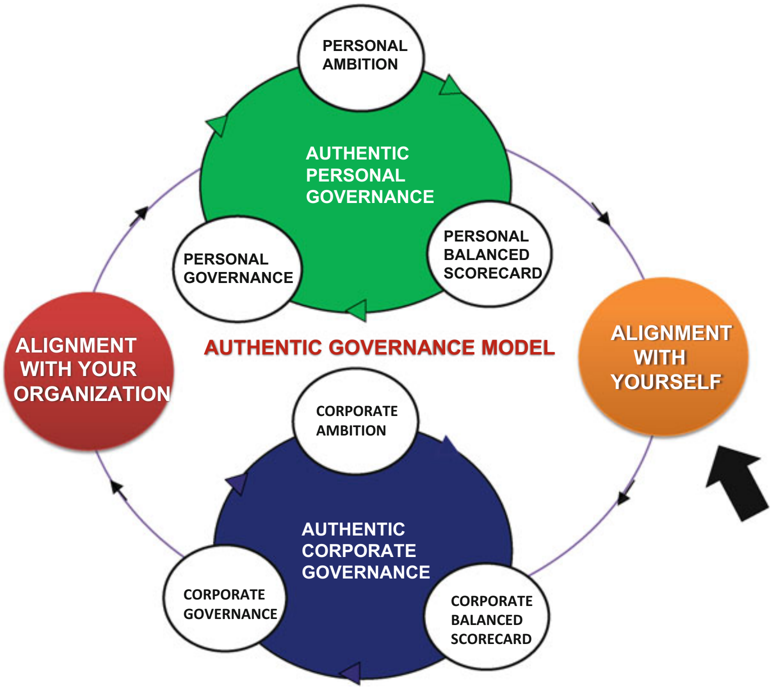

Fig. 6.1 Second stage in the authentic governance model

should act and behave accordingly (you should be yourself) to build trust. Trust will be built faster when others believe you are real and when they witness you being true to your beliefs and aligned with who you really are. You will build trust when your values connect to your attitudes and actions and when you are true to yourself. Building trust starts with being true and authentic to yourself. This involves finding the proper balance between your personal ambition and your behavior and actions in order to create a stable basis for trust. It is about alignment with yourself. This process entails the second stage in the authentic governance model; see Fig. 6.1.

This inner alignment is an important step towards lasting personal governance and growth and reinforcing integrity, honesty, trustworthiness, credibility, transparency, and personal charisma. People with this perspective on life value others' lives and create a stable basis for others to feel they are credible, truthful, and trustworthy. They practice what they preach and they keep their word; their actions match their personal ambition.

When you achieve this inner authority, you also have a positive effect on the loyalty, motivation, and dedication of those around you. As noted earlier, a nice personal ambition statement without personal integrity is cosmetic and will not lead to your sustainable personal and corporate governance. It will also not create a stable basis for effective personal leadership. I am referring to Miller and Pruzan (2003):

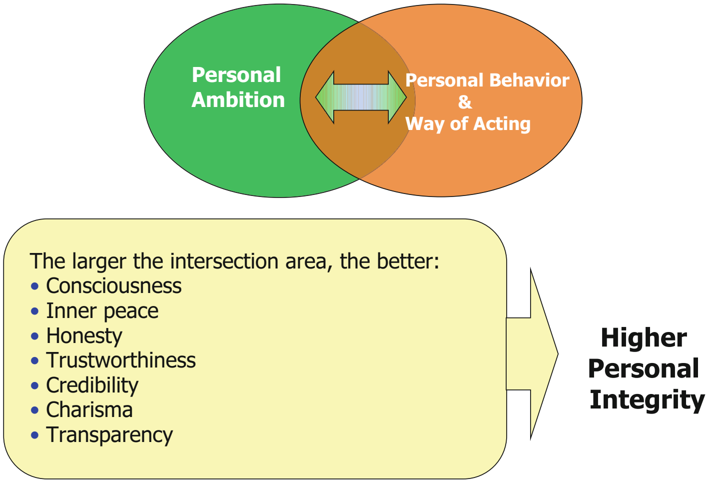

Fig. 6.2 Aligning personal ambition with personal behavior and actions (Rampersad, 2009)

"*There is such a need for a complete rebirth of trust in our business leaders. Somewhere along the line leaders lost their humility and in doing so they have lost their compassion and empathy and their inner connection to God.*"

The most intimate relationship you have is with yourself. You will strengthen this relationship and build personal integrity by aligning your personal ambition with your behavior and actions—with who and what you really are. This aligning process is about the interaction between your dream, aspirations, intentions, purpose, and values, in other words, and how others interpret you (your personal behavior). Your values (which are part of your personal ambition) are the principles by which you live your life and affect the way you think, feel, act, and behave. When your actions, behavior, and thoughts reflect your values, the result is personal integrity. This affects your relationship with others and yourself positively. This is the basis for sustainable corporate governance.

There is a potential difference between how you see yourself (who you want to be) and how others judge you (how you are perceived by others). While we judge ourselves by our invisible behavioral patterns, others judge us by our visible behavioral patterns (what we do and say and how we act). To become the person envisioned in your personal ambition, you also have to know how others see you and what they think of you. When you know this, your self-knowledge increases and you will be able to improve the effectiveness of your actions. This process of personal integrity development involves the establishment of a match or fit between your personal ambition (which envisions a higher level of consciousness) and your personal behavior (which refers to your present behavior and actions); see Fig. 6.2.

You should reflect during this alignment process on the following questions (Rampersad, 2009):

- Do I act in accordance with my conscience and my values?
- Is there consistency between what I am thinking and what I am doing?
- How do my ideals, ambition, intentions, needs, and deepest desires fit my present actions?
- Are my thoughts and my practices the same?
- Do I act consistently in accordance with my personal ambition?
- Does my personal ambition reflect my desire to act ethically?
- In what way does my behavior influence my views, and vice versa?
- Do I keep promises that I make to myself?
- How do others perceive me and my values?
- Do they witness me being true to my core beliefs and me staying in alignment with who I really am?

Your personal ambition and your practices must be the same. In this way, you will enhance your charisma, be transparent, and become trusted. When you find harmony between your personal ambition and your personal behavior, you will not come into conflict with your conscience. According to Selvazajan Yesudian (2009): "O*ur conscience is the inner voice that talks to us with firm conviction to help us distinguish between right and wrong*, *between fact and fiction. It is a voice that whispers to us what we can do best and guides us in our daily activities. It is a voice that we can trust and on which we can build our existence. It is the only reliable compass to follow if there is a conflict between the mind that reasons and the heart that decides*." Harmony between your personal ambition and your personal behavior/actions ensures that your deeds are in accord with your conscience. You will gain better insight into your behavior, your strengths and weaknesses, and your related objectives. It has also an impact on your solidarity with others. Remember what Albert Schweitzer said: "*The first step in the evolution of ethics is a sense of solidarity with other human beings*."

Harmony between personal ambition and personal behavior also has to do with attentiveness, namely, to continuously perceive what you do and be aware of the influence of your behavior and actions on human beings, animals, plants, and the environment (social responsibility). As this attentiveness develops, your ethical behavior will increase. The breathing and silence exercise previously introduced and the reflection on the match between your personal ambition and your personal behavior/actions will help to stimulate your attentiveness. You will also become a better human being.

The Best Way to Look at Success Is to Ask

- Have I followed my conscience consistently?
- Have I followed my personal ambition consistently?
- Have I given it my best effort consistently?
- Have I done what was right consistently?

The ability to look at oneself honestly and openly is the most powerful and important skill in personal and corporate governance. Others will trust you if they experience consistent trustworthy behaviors and if you act right. It is therefore important to ensure that who you are, what you say you are, and what others experience from you are always the same. As a result of this, you will govern yourself effectively and good corporate governance will be sustainable.

Everyone within the organization must be encouraged to align their personal ambition with their behavior and actions. They should care about ethics and corporate social responsibility and ensure that their actions reflect integrity and high ethical standards. The next section explains why this is very important.

Aligning Personal and Corporate Ambition with Ethics

Organizations must care about ethics and corporate social responsibility to ensure that their actions have integrity and reflect high ethical standards. Their corporate ambition should therefore be inspired by ethics, as you have seen in the previous section. Ethics concerns human *duty* and the principles on which this duty is based (Thompson & Strickland, 2002). Every company has an ethical duty to its shareholders, employees, customers, suppliers, and the community at large. Each of these stakeholders affects the organization and is in turn affected by it.

The duty to the shareholders arises out of the expectation of a superior return on investment and improved dividend payment. It is the moral duty of business executives and employees to run a profitable organization with the owner's investment in mind. A company's ethical duty to its employees arises out of respect for the worth and dignity of individuals who devote their energy to the business. Business executives also have the moral duty to promote employee interests such as competence development, career opportunities, job security, a safe and healthy workplace, and respect for the dignity and privacy due to all human beings.

The ethical duty to the customer encompasses the provision of reliable products and services, at fair prices, that are delivered on time and within budget according to regulations. Organizations have the moral duty to protect customers: by voluntarily informing them about the ingredients in their products and whether they could have potential harmful effects, by recalling products they suspect have faulty parts or defective designs, and so on.

The duty to suppliers arises out of an organization's partnership relationship with them that is necessary to increase added value and realize a high-quality product. Companies confront several ethical issues in their supplier relationships. For example, is it ethical to purchase goods from suppliers who employ child labor, pay low wages, or have poor working conditions?

The ethical duty of the company to the community at large arises out of the fact that as a member of society, it is expected to be a good citizen. This is demonstrated by, for instance, paying taxes, being eco-conscious, supporting community activities, creating job opportunities, and operating responsibly.

The corporate ambition must stimulate the ethical behavior of everyone within the organization, and they must act in accordance with the formulated principles and values. The boxed text discusses the infamous example of a formerly successful company that had an effectively shared ethical ambition but nevertheless went bankrupt because it was undermined by the unethical behavior of its management (Thompson & Strickland, 2002). The Enron case stresses the importance of aligning the personal ambition of management and employees with their personal behavior and with the corporate ambition. The mutual alignment of the personal and shared ambition will be discussed in Chap. 10.

The Enron Debacle: A Bold Shared Ambition Undermined by Management's Unethical Behavior

Until its crash in the fall of 2001, Enron was one of the world's largest electricity, natural gas, and broadband trading companies, with revenues of over $100 billion. Enron's strategic intent was to become *the* blue-chip energy and communications company of the twenty-first century through its business efforts in four core areas: Enron Wholesale Services, Enron Broadband Services, Enron Energy Services, and Enron Transportation Services. Enron management claimed that each of these business units supported the company's shared ambition, stated as follows:

Who Are We and Why Do We Exist?

We offer a wide range of physical, transportation, financial, and technical solutions to thousands of customers around the world. Our business is to create value and opportunity for your business. We do this by combining our financial resources, access to physical commodities, and knowledge to create innovative solutions to challenging industrial problems. We are best known for our natural gas and electricity products, but today we also offer retail energy and broadband products. These products give customers the flexibility they need to compete today.

What Do We Believe?

We begin with a fundamental belief in the inherent wisdom of *open markets*. We are convinced that consumer choice and competition lead to lower prices and innovation. Enron is a laboratory for *innovation*. That is why we employ the best and the brightest people. And we believe that every employee can make a difference here. We encourage people to make a difference by creating an environment where everyone is allowed to achieve their full potential and where everyone has a stake in the outcome. We think this entrepreneurial

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approach stimulates *creativity*. We value *diversity* and are committed to removing all barriers to employment and advancement based on sex, sexual orientation, race, religion, age, ethnic background, national origin, or physical limitation. Our success is measured by the success of our *customers*. We are committed to meeting their energy needs with solutions that offer them a competitive advantage. And we work with them in ways that reinforce the benefits of a long-term partnership with Enron. In everything we do, we operate safely and with concern for the *environment*. This is a responsibility we take seriously in all the different places around the world where we do business. We are changing the way energy is delivered, as well as the market for it. We are reinventing the fundamentals of this business by providing energy at lower costs and in more usable forms than has been provided before. Everything we do is about change. *Together* we are creating the leading energy company in the world. Together, we are defining the energy company of the future.

Our Core Values

Integrity: We work with customers and prospects openly, honestly, and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

Respect: We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance don't belong here.

Excellence: We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

Communication: We have an obligation to communicate. Here, we take time to talk with one another and to listen. We believe that information is meant to move and that information moves people.

But gaping flaws in Enron's strategy began to emerge in the fall of 2001, starting with revelations that the company had incurred billions more in debt to grow its energy trading business than was first apparent from its balance sheet. The off-balance-sheet debt was hidden by obscurely worded footnotes to the company's financial statements involving mysterious partnerships in which the company's Chief Financial Officer (CFO) had an interest (and was apparently using it to make millions in profits on the side). After Enron's stock price slid from the mid-$80s to the high $30s despite glowing earnings reports, the company's well-regarded Chief Executive Officer suddenly

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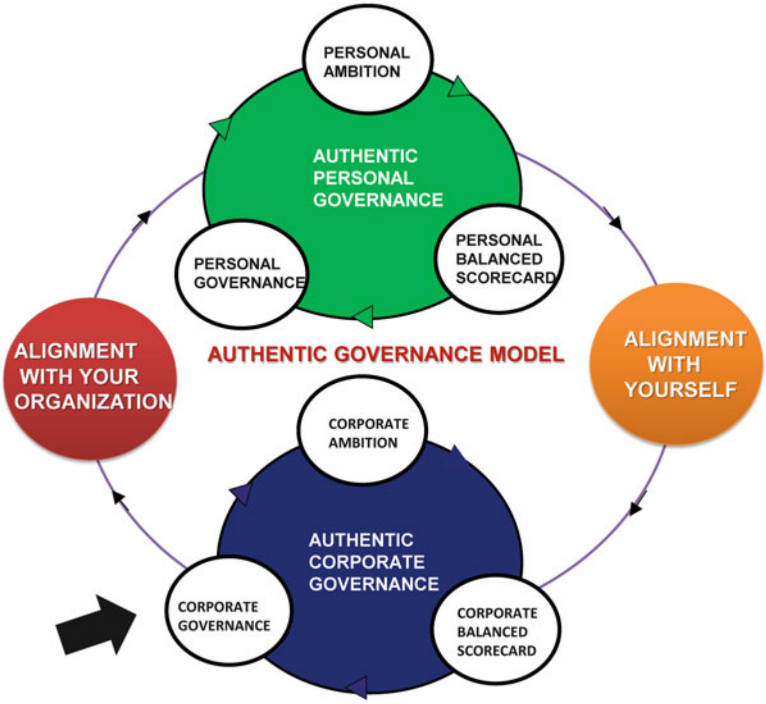
resigned for "personal reasons" in August 2001. Weeks later, the company's CFO was asked to resign as details of his conflict of interest in the off-balance-sheet partnerships came to light. Meanwhile, top company executives continued to insist publicly that the company was in sound financial shape and that its business was secure, hoping to keep customers from taking their business to rivals and to reassure concerned shareholders. But Enron's crown jewel, its energy trading business, which generated about $60 billion in reported revenues, came under increased scrutiny, both for the debt that had been amassed to support such enormous trading volumes and for its very thin profit margins (some of which were suspect due to accounting treatments that had won the stamp of approval of Arthur Andersen, the company's auditor). Within weeks, Enron filed for bankruptcy, its stock price fell below $1 per share, its stock was delisted from the New York Stock Exchange, and a scandal of unprecedented proportions grew almost daily. Arthur Anderson fired the partner on the Enron account when it appeared that working papers relating to the audit were destroyed in an apparent effort to obstruct a congressional investigation of the details of Enron's collapse. Enron's board fired Arthur Anderson as the company's auditor. Then Enron was caught destroying documents (as late as January 2002) in an apparent attempt to hide the company's action from investigators. Enron's chairman and CEO resigned; the company's former Vice Chairman committed suicide after it became public that he had vigorously protested Enron's accounting practices earlier in 2001. It also came out that senior company officers had sold shares of Enron stock months earlier, when the stock price slide first began. Enron employees—most of whom had their entire 401(k) moneys tied up in Enron stock and were precluded from selling their shares, and 4,000 of whom were dismissed in a last-ditch effort to cut costs—watched helplessly as their retirement savings were wiped out by the crash. The extent of management's unethical behavior is still under investigation. But Enron management clearly did not act in accordance with the principles and values it espoused.

Source: A. A. Thompson and A. J. Strickland. *Strategic Management*: *Concepts and Cases*. Boston: McGraw-Hill, 2002, pp. 65–66.

In the next part of this book, we will focus on authentic corporate governance.

Part II
Authentic Corporate Governance



"The things that will destroy us are: politics without principle, pleasure without conscience, wealth without work, knowledge without character, business without morality, science without humanity, and worship without sacrifice".

—Mohandas K. Gandhi

Chapter 7
Corporate Ambition

> *"Ethics cannot be based upon our obligations toward people, but they are complete and natural only when we feel this Reverence for Life and the desire to have compassion for and to help all creatures insofar as it is in our power. I think that this ethic will become more and more recognized because of its great naturalness and because it is the foundation of a true humanism toward which we must strive if our culture is to become truly ethical."*
>
> —Albert Schweitzer

As with the personal ambition, before you can clearly define and describe your corporate balanced scorecard and corporate governance, you need to look at the big picture first. You need to start with the shared corporate ambition. Corporate ambition is the starting point, the core intention, and the guiding principles of corporate governance. It's the fuel for corporate governance. The first phase in the authentic corporate governance model therefore involves defining and formulating the corporate ambition; see Fig. 7.1. It encompasses the corporate mission, vision, and core values.

The corporate ambition expresses the soul of the organization. A successfully formulated corporate ambition shows employees how their activities contribute to the larger whole. People working together towards strategic objectives often produce better performances. They feel pride in making a useful contribution towards something worthwhile. The corporate ambition directs an organization and function both as its compass and its road map. They also make employees proud of their organization, letting them focus on relevant activities and in turn create value for customers, thus eliminating unproductive activities. In an organization without an effective formulated corporate ambition, employees are exposed to ad hoc decisions and short-term plans. The corporate ambition functions as a lighthouse keeping the company steadily on the course of its dream. Organizations without a clear inspiring shared ambition—or with a wrong one—create a lot of suffering for their stakeholders.

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Fig. 7.1 First stage in the authentic corporate governance model (Rampersad, 2009)

The four result domains in the corporate ambition include categories of business results, which are of essential importance for survival. As with the personal ambition, the following four basic perspectives have been chosen; however, the contents have different meanings (Rampersad, 2003):

1. *Financial:* Financial soundness. How do shareholders see the organization? What does it mean for our shareholders?
2. *External:* Customer satisfaction. How do customers see the organization? What does it mean for our customers?
3. *Internal*: Process control. How can we control the primary business processes in order to create value for our customers? In which processes do we have to excel to continuously satisfy our customers?
4. *Knowledge and learning*: Innovation. Skills and attitudes of the employees and the organizational learning ability. How can the organization remain successful in the future? How should we learn and improve and through this continuously realize our shared ambition?

These four basic perspectives also cover the consequences for the community. Figure 7.2 shows the corporate ambition framework, including the related shared ambition questions.

The formulation of the corporate ambition is most effective when it complies with the following criteria:

- The corporate mission is aimed at *being* (*is* an articulation of what the organization is all about), and corporate vision at *becoming*.
- The vision is ambitious and challenging; it gives an attractive view of the final objective, gives guidance to initiatives and creativity, appeals directly to people, and joins forces within the organization.
- The vision gives direction; it determines today's actions in order to achieve an optimal future.

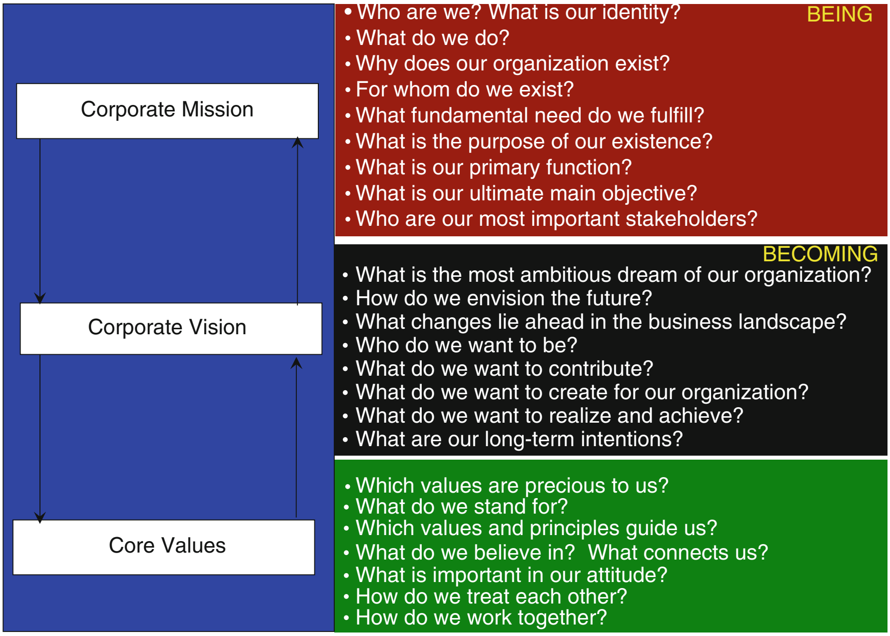

Fig. 7.2 Corporate ambition framework (Rampersad, 2003, 2009)

- The vision, in contrast to the mission, is tied to a timeline.
- The emphasis is on unselfishness.
- The mission is short, concrete, and simple; it is understandable and clear to everyone in the organization so that it can be used as a concrete guide for taking action.
- The mission is not focused explicitly on profitability or on any other financial element.
- The shared ambition appeals to the largest group of stakeholders and is formulated in positive terms.
- The mission and vision are realistic and recognizable for everyone; their feasibility is not open for discussion.
- The mission and vision are organization specific; their emphasis is on those elements that distinguish it from other organizations. At the same time, the borders of the mission specifically are broadly defined to allow for the development of new initiatives.
- The mission and vision include ethical starting points and cultural components, such as respect for the individual, contributions to society, helping people to develop their possibilities, and so on.
- The vision is complete; it takes into consideration all four scorecard perspectives: financial, customers, internal processes, and knowledge and learning.

- The vision advances; it should be revised every 5 years in order to keep it fresh. An effective vision can generally give the organization successful direction for decades.

In the following sections, each of the phases in the corporate ambition framework will be discussed in depth.

Corporate Mission

The corporate mission consists of the organization's identity and indicates its reason for existing: Why, to what extent, and for whom does it exist? What are the primary function and the ultimate objective of the organization? Which basic need does it fulfill, and who are its most important stakeholders? An effectively formulated mission creates a sense of unity in the behavior of employees, strengthens their like-mindedness, inspires them, and improves both communication and the atmosphere within the organization.

In part one of this book, we used a fictitious person, named John Miller, as an example to illustrate the personal ambition and BSC concept. In part two of this book, we will use his Royal Standard Bank as a fictitious business case to illustrate the corporate ambition and BSC concept. The mission of this bank is shown below.

Royal Standard Bank's Mission

Committed to improve the quality of life of the communities we serve, by being the best provider of a full spectrum of lending and investment products and personalized financial services, within a framework of shared integrity.

Corporate Vision

The corporate vision contains the most ambitious dream of the organization. It provides a shared vision of a desired and feasible future, as well as the route needed to reach it. It indicates what the organization wants to achieve, what is essential for its success, and which critical success factors make it unique. Values and principles are also part of the organizational vision. An effectively formulated vision guides personal ambitions and creativity, establishes a climate that is fertile for change, strengthens the organization's belief in the future, and therefore releases energy in people. Take a look below at the Royal Standard Bank's vision.

Royal Standard Bank's Vision

We will accomplish our mission by:

- Consistently maintaining the highest ethical principles and excellence in regulatory compliance and authentic governance.
- Earning the loyalty of employees, customers, and the community by fostering genuine relationships with them and providing products and services with a higher perceived value to our target market than any of our competitors.
- Maximizing shareholder value by providing our shareholders long-term growth and an attractive return on their investment in the bank.
- Creating and maintaining a professional innovative environment that fosters the confidence of our employees and shareholders and exceeds the expectations of our customers.
- Fostering a mutually supportive, inspiring, and learning environment within our organization where human spirit thrives and which models the best practices in human performance, total quality, and creativity.

Core Values

The corporate ambition is also based on a set of shared values that are used to strengthen the like-mindedness, commitment, and devotion of employees and to influence their behavior positively. These values determine how one must act in order to realize the corporate mission. They function as the guiding principles that support people's behavior at work. They have an important impact on the relationship between the employees and the organization. Core values hold people together if they act and think along the lines of these values. They articulate the way we treat each other and how we see customers, employees, shareholders, suppliers, and the community. If the principles, norms, and values of the employees match those of the organization, then their efforts and involvement would be optimal. Therefore, core values are strongly related to the personal ambition of the individual employees. After all, with a corporate ambition based on shared values, the personal objectives of individual employees will correspond closely to those of the organization.

The core value must be ethical in order to pass the test of moral scrutiny. Everyone within the company should act in accordance with these principles and moral standards. They must understand that these values and ethical standards are integral to all company operations activities. The core values of the Royal Standard Bank are shown below.

Royal Standard Bank's Core Values

We are guided by the following core values:

Integrity: We are always honest, trustworthy, confidential, fair, and respectful in everything we do, and we apply these attributes in our daily personal and professional endeavors.

Commitment: We are committed to providing increased value to our customers, developing the full potential of our employees, and giving back to the community we live in for the benefits we have received.

Accountability: We are responsible for our actions and their results and are accountable to our employees, customers, shareholders, and the community.

Passion: We are passionate in everything we do, thoroughly enjoy our work, do the right things right, and always act and serve out of love.

How to Develop the Corporate Ambition

The corporate ambition development process begins with the management team formulating the corporate ambition conceptually and then communicating it during several sessions to all stakeholders. In practice, this dissemination of the corporate ambition is done more and more through in-house conferences, where large groups of participants are briefed, and then discuss the ambition statement with each other. Based on this feedback, adjustments are made and a definitive ambition statement is then formulated to which nearly everyone can subscribe. Afterwards, every business unit formulates its own vision based on the corporate ambition. After employees have familiarized themselves with the vision of the business unit, they will use it as a guideline for the formulation of their own team's vision.

This process of ambition development is done at all organizational levels, with the active participation of all stakeholders at an early stage. This learning process is intuitive, iterative, and cyclic as well as democratic; it is based on the exchange of insight, creativity, and ideals. Treat everyone equally, strive for single-mindedness (absolute consensus is not required), stimulate interdependence and diversity, and concentrate on the process (not only on the formulation of the ambition statement). With the development of the shared ambition, past and present insights and activities are aligned with future expectations. By exchanging thoughts with employees (*brainstorming* in a team, whereby each team is representative of the entire company), employees and managers get better insight into the company course to follow. This will benefit the support and commitment within the whole organization. The development process is therefore more important than the statement itself. When assessing the corporate ambition, the following questions are central: *Does it* *give you direction, energy, strength, motivation, something to hold on to, and a feeling of warmth? Do you feel like implementing your knowledge intensively and sharing it with others because of it? Do you feel personally involved with it? Does it provide perspective to all stakeholders? Does it give an orientation to all key activities? Does it relate to you? Does it make you enthusiastic? Do you believe in it? Does it give you a feeling of direction? Will you work with all your might to realize it?* By asking and answering these questions, you make choices that will gradually give greater and greater shape to the corporate ambition. Top management starts this process, whereby the results are propagated from top to bottom. It is a top-down and bottom-up process. In order to do this effectively, the management must give direction and support, show commitment, as well as coach and think together with everyone instead of doing the thinking for the employees. They must help and train the individuals on how to raise the energy in an environment of mutual respect, trust, and commonly shared ambition.

In the next chapter, we will show you how to successfully connect your corporate ambition to your corporate balanced scorecard in a way that can have a profound impact on the company performance.

Chapter 8
Corporate Balanced Scorecard

> *"A man's ethical behavior should be based effectually on sympathy, education, and social ties and needs; no religious basis is necessary. Man would indeed be in a poor way if he had to be restrained by fear of punishment and hope of reward after death."*
>
> —Albert Einstein

Once you have formulated the corporate ambition, the next step is to translate this into the corporate balanced scorecard in order to make the shared ambition a reality. Corporate ambition will be of no use without goal setting, continuous process improvement, and contributing on a day-to-day basis, based on the corporate balanced scorecard. The development of this scorecard entails the second phase in the authentic corporate governance model; see Fig. 8.1.

The corporate balanced scorecard is a participatory approach that provides a framework for the systematic development of business strategy based on the shared corporate ambition and for making this ambition operational at all organizational levels. It makes the long-term corporate ambition measurable and translates this systematically into short-term manageable, measurable, and concrete actions in a holistic and balanced way. The corporate balanced scorecard system presented in this chapter, launched by Hubert Rampersad in his books *Total Performance Scorecard* and *Personal Balanced Scorecard* (2003, 2006), differs from the basis BSC concept of Kaplan and Norton (1996), developed in the early 1990s. In our holistic and authentic corporate balanced scorecard system, there is a direct linkage between the corporate ambition and the corporate critical success factors (CSFs), objectives, performance measures, targets, and improvement actions, and there is a strong alignment with human capital and personal and corporate integrity. The implementation of Kaplan and Norton's Balanced Scorecard concept deviates in a number of points from the corporate balanced scorecard concept we present here. In practice the brilliant Kaplan and Norton approach is applied as mechanistic and bookkeeping tool. In our approach business results are achieved through a strong focus on people.

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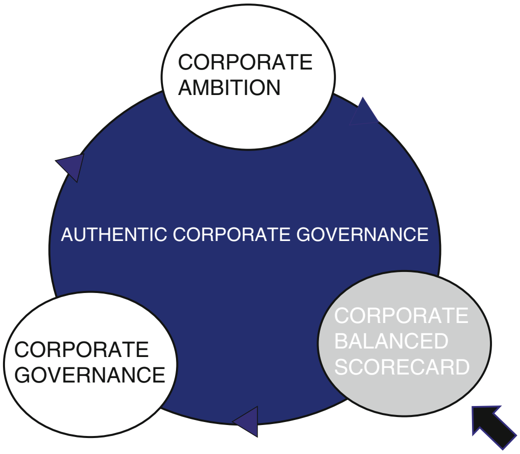

Fig. 8.1 Second stage in the authentic corporate governance model

This is very important for sustainable corporate governance and developing a real learning organization. Remember, sustainable corporate governance will be achieved only if the personnel change inwardly and personal integrity has become a way of life. Our approach, in contrast with Kaplan and Norton's Balanced Scorecard, integrates people involvement and happiness into the balanced scorecard and involves individual buy-in, in order to realize sustainable personal and organizational performance improvement and ethical corporate excellence. It is about aligning human capital to business success. That is why numerous case studies indicate that the implementation of Kaplan and Norton's Balanced Scorecard in North America has been disappointing at best, and in Europe, South America, and Asia even more so. Despite the above criticism Kaplan and Norton's Balanced Scorecard is a good concept that makes a useful contribution to the successful implementation of our authentic balanced scorecard concept.

Ten Reasons for Traditional Balanced Scorecard Implementation Failures

1. Applied as mechanistic and bookkeeping tool, with no explicit linkage between the corporate ambition and the corporate CSFs, objectives, performance measures, targets, and improvement actions (initiatives).
2. Emphasis mainly on financial measures rather than nonfinancial, leading to measures that do not connect to the drivers of the business.
3. No explicit link between personal ambition and ethical behavior; neglect of personal integrity and business ethics. By aligning and balancing your personal ambition with your personal behavior as discussed earlier, you will create inner peace and improve your own credibility, as well as acting according to your conscience, see Chap. 6.
4. No explicit link between personal ambition and shared ambition. There is also no alignment with the personal ambition of individual employees, creating human capital tensions between work and non-work aspirations.

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This also results in insufficient employee support to work according to organizational performance measures and an implementation plan that is not grounded in reality and unable to respond quickly to unforeseen events. In our approach, we create a happy workforce and enjoyment at work, as a result of the balance between your personal ambition and the shared ambition; see Chap. 10. In this way your inner involvement will be increased. Happiness in the organization will be enhanced by reducing the gap between company life and private life and between the way people deal with their colleagues at work and the way they act with their friends and family in their spare time.

5. Lack of leadership engagement and no sponsorship from top-level management; successful implementation requires dedicated top-level management support, a dedicated team of change agents, cultural organizational change, and a combination of top-down and bottom-up implementation. In our approach we use the personal balanced scorecard and unique alignment system to develop personal leadership, personal effectiveness, and buy-in, not only at top-level management, but on all organizational levels, resulting in sustainable cultural organizational change. This is a stable foundation for sustainable corporate governance.
6. Poor communication of the new way of working by management results in creation of an employee mentality that is hostile to management messages. In our inside-out and organic approach performance management is a continuous voyage of discovery, involving continuous, gradual and routine improvement, communication, sharing, coaching, and learning.
7. Results in an individual performance plan that focuses too much on the money side and not enough on delivering organizational values, leading to a "*What's in it for me*" culture.
8. Self-learning, personal effectiveness, personal change, and organizational learning are not facilitated; this results in creation of a climate of defensiveness and mistrust and a business strategy that is poorly understood and therefore impossible to execute. With our approach we develop a climate of team learning and trust by stimulating individuals to share their personal ambition with each other. In this way they will get to know, understand, and appreciate each other better, which forms a stable basis for greater mutual respect and trust.
9. Too many objectives defined and too many performance metrics being measured.
10. Data on current individual and organizational performance insufficiently available.

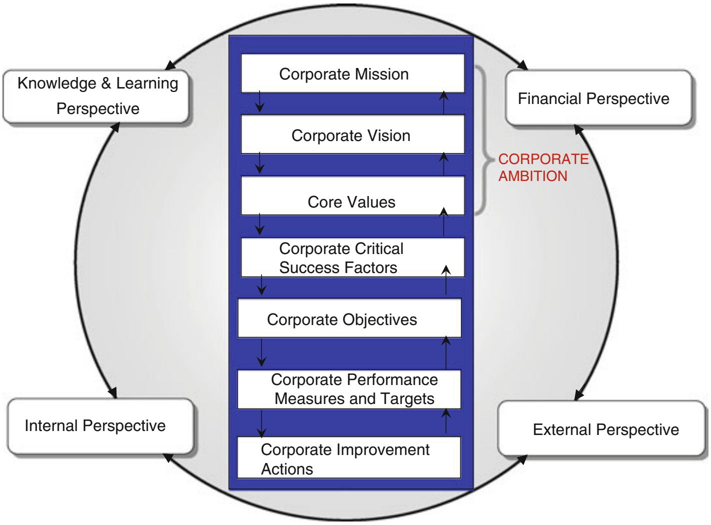

Fig. 8.2 Corporate balanced scorecard framework (Rampersad, 2003, 2006)

The corporate balanced scorecard discussed in this chapter is an effective tool to manage the organization, by developing improvement actions to achieve its objectives, keeping track of the progress of these actions, reporting your key accomplishments, etc. Figure 8.2 shows the framework for formulating the corporate balanced scorecard. It provides a road map to translate the corporate ambition into actions and to capitalize on the strengths and eliminate the weaknesses.

In the following sections, each of the phases in the corporate balanced scorecard framework will be discussed in depth. The corporate ambition has been discussed in the previous chapter.

Corporate Critical Success Factors

The corporate CSF is one in which the organization must excel in order to survive or one that is of overriding importance to organizational success. Such strategic issues determine the competitive advantage of an organization. They are factors in which the corporate wants to differ and makes itself unique in the market. CSFs are real core competencies included in the corporate ambition statement (the ones the corporate actually operates from) and the idealized core competencies (the ones the corporate thinks it should operate from), which the corporate should further develop in order to *make a difference and be the difference*. The crucial questions in this process are as follows: *What makes our organization unique, special, and different? Which factors in our corporate ambition are decisive for our competitiveness? Which factors are essential for the realization of our corporate objectives? And what are our core competencies?*

Corporate CSFs are related to the four BSC perspectives and thus form an integral part of the shared corporate ambition. The corporate CSFs form the bridge between the corporate ambition (long term) and on the other side the corporate objectives, performance measures, targets, and improvement actions (short term). This link is made explicit by identifying the corporate's core competencies, uniqueness, and values in the corporate ambition and translating these into concrete corporate objectives. As with the personal balanced scorecard, a corporate balanced scorecard has a minimum of four CSFs (at least one per perspective), and every CSF has one or more related corporate objectives; each objective has one related performance measures, while each performance measure has only one related target; each target is linked to one or more related improvement actions (initiatives). Examples of corporate CSFs are financial strength, well-motivated personnel, a happy workforce, skilled employees, good customer service, etc.

Corporate Objectives

The corporate ambition needs to be tied to the corporate objectives. Corporate objectives describe the expected results that should be achieved within a short time in order to realize the long-term corporate ambition. The corporate objectives give the corporate ambition direction. The corporate objectives are quantified through corporate performance measures and targets. These objectives are derived directly from the CSFs. The objectives form part of a cause-and-effect chain (strategic map), resulting in the main corporate objective.

The main question here is what comes first: shareholders, customers, employees, society, etc. In our view employees come first, the customers come second, the society is in the third place, and the shareholders are in fourth place. You will not improve the quality of life of your customers and shareholders and make them happy if you do not first improve the quality of life of your employees and make them happy. The corporate should be *stakeholder-oriented* instead of *shareholder-oriented*. A study performed by Harvard Business School found that companies that were stakeholder-oriented, meaning that they paid explicit attention to their responsibilities towards their stakeholders, such as employees, customers, society, and their shareholders, showed four times the growth rate and eight times the employment growth of those companies that only focused on increasing the wealth of their shareholders (Miller & Pruzan, 2003). Wealth creation is not a major objective; it is the means by which we can serve society. Also remember what Konosuke Matsushita (founder of Panasonic) said: *Profit should not be reflected of corporate greed but a vote of confidence from society that what is offered by the firm is valued.*

Corporate Performance Measures

A corporate performance measure is an indicator, related to a corporate CSF and a related corporate objective, and is used to judge the functioning of a specific process. These indicators are the standards by which the progress of the objectives is measured. They are essential for putting the corporate ambition into action. They provide management with timely signals of guidance, based on the measurement of (process) changes and the comparison of the measured results to the norms. Therefore, performance measures make the corporate ambition measurable. Table 8.1 displays an overview of possible corporate performance indicators according to each BSC perspective. Saleh Hussain provides many performance measures related to corporate governance in his related books (Hussain, 2009, 2011).

Corporate Targets

A corporate target is the quantitative objective of a performance measure. It is a value that a corporate entity aspires towards, the realization of which can be measured by means of a performance measure. In other words, targets indicate values to be obtained. In this stage you should set specific timetables and deadlines for each performance measure. As with personal performance measures, corporate performance measures and targets need to comply with SMART criteria (see Chap. 4).

Corporate Improvement Actions

Corporate improvement actions are strategies or initiatives undertaken to realize the corporate ambition. The *how* is central here. Alternative strategies are formed on the basis of the aforementioned steps, and from this, actions are chosen which result in

Table 8.1 Corporate performance measures (Rampersad, 2003, 2006)

Perspective	Corporate performance measures
Financial	• Earnings per share • Operating earnings • Total income • Total expenses • Liquidity ratio • Profit margin • Leverage ratio • Economic value added • Return on investment • Share price • Shareholders value • Net interest income • Value added bank profits • Return on equity • Return on assets • Net interest margin • Revenue mix • Revenue growth • Return on equity growth • Investment level • Cash flow • Revenue growth • Sales • New products and services revenue • Operational costs as a percentage of sales • Profitability = sales/costs + interests received • Percent of deviation from the budget • Productivity = output/input = result/costs • Actual productivity = actual result/actual costs • Expected productivity = expected result/expected costs • Result = output = (all produced units × sales price) + dividends • Labor productivity = result/labor costs • Labor costs = man hours × hourly wage • Capital productivity = result/capital costs • Capital costs = annuity value of used capital goods • Material productivity = result/material costs • Material costs = purchased material – storage costs • Miscellaneous productivity = result/miscellaneous costs • Miscellaneous costs = energy, maintenance, insurance, etc. • Integral productivity = result/(labor costs + capital costs + material costs + miscellaneous costs) • Effectiveness = actual result/expected result • Gross value added = sales – used raw material, goods, and services needed to produce these products • Net value added = gross added value – depreciation (consumption of durable capital goods)

(continued)

Table 8.1 (continued)

Perspective	Corporate performance measures
	• Value added per annual sales • Purchase share as percent of sales • Circulation velocity of stock • Percent inventory • Purchasing price versus market price • Purchase share in relation to sales • Number of suppliers • Percent revenue from new products
External	• Number of customer referrals • Corporate brand awareness • Market share • Market growth • Customers' growth • Growth of current accounts • Growth of saving accounts • Growth of safety deposits • Customer retention • Number of meetings with stakeholders • Degree of customer satisfaction • Degree of customer acquisition • Percent of customers who terminate their relationship with the organization due to dissatisfaction • Number of highly satisfied customers • Target number of obtaining customers • Number of potential customers • Potential revenues • Time needed to answer a complaint • Time needed to solve a complaint • Degree of customer loyalty • Number of "nonsales" • Costs associated with losing a customer or gaining a new customer • Sales loss as a result of dissatisfied customers • Number of visits to important customers • Number of meetings with customer groups to be informed about their demands, requirements, ideas, and complaints • Number of concrete objectives with regard to customer satisfaction • Number of guidelines related to optimal customer satisfaction • Percent of cases where the telephone is answered within three rings • Accessibility • Costs of marketing • Sales marketing department • Delivery time (between placing an order and delivery) • Time needed to make an offer • Percent of orders delivered late • Response time to a service request • Number of customer contacts • Number of customer surveys

(continued)

Table 8.1 (continued)

Perspective	Corporate performance measures
	• Number of warranty claims • Number of customer complaints • Percent customer returns • Percent customers satisfied with communication
Internal	• Number of reprocessed bank transactions • Growth of banking services • Credit growth • Number of internal regulations • Investment in technology • Number of ethical/legal violations • Level of compliance with governance guidelines • Number of voluntary disclosures • Number of external disclosures by stakeholders or by experts • Number of communication channels with board • Number of risk audits performed • Number of crises • Efficiency = expected costs/actual costs • Throughput time = processing time + inspection time + movement time + waiting/storage time • Manufacturing cycle effectiveness = processing time/throughput time • Downtime • Number of breakdowns • Availability = MTBF/MTTR • MTBF = Mean time between failures • MTTR = Mean time to repair • Failure rate = (number of failures/total number of products tested) × 100 % • Failure rate = (number of failures/operating time) × 100 % • Actual processing times versus waiting times • Machine availability = {(production time − stoppage time)/production time} × 100 % • Throughput time of failures = dispatch time − notice time • Invoicing speed • Delivery time (between order and delivery) • Time needed to present an offer • Percent of delayed orders • Response time to a service request • Lead time for product development • Time needed to launch a new product on the market (time-to-market) • Percent of forms filled in correctly • Percent correctly performed function-oriented behavior • Quality grade = {(production quantity − number of defects)/production quantity} × 100 % • Percent rejects or percent approved • Percent scrap • Percent damaged • Percent returned • Percent injuries due to dangerous work

(continued)

Table 8.1 (continued)

Perspective	Corporate performance measures
	• Percent safety incidents • Percent environmental incidents • Percent of processes that are statistically controlled • Percent of processes with real-time quality feedback • Percent delayed orders • Delivery reliability; percentage deliveries completed on time and according to the specifications • Quality costs consisting of: – I*nternal failure costs*; costs linked to correcting mistakes before delivery of the product – *External failure costs*; costs that regard the adjustments of malfunctions after delivery of the product – Expenses, replacement costs, stock spare parts, lost goodwill of customer, guarantee and warranty costs, and dispatchment costs – *Prevention costs*; costs that are related to occurrence of the above mentioned – *Judgment costs*; costs that have to do with measuring and evaluating products and processes to guarantee that these meet certain standards
Knowledge and learning	• Effectiveness of incentive program • Training satisfaction level • Employee satisfaction • Percent of sick leave • Percent of latecomers • Satisfaction degree of employees • Employee turnover • Rating of board-management relationships • Rating of internal board relationships • Rating of stakeholder relationships • Rating of the board's understanding of strategic aims and directions • Rating of directors' involvement in strategy percent of accepted projects that meet/exceed expectations • Rating of board-CEO relationships • Rating of chair's ability to steer the board towards a strategic focus and away from day-to-day management • Ratings of quality of internal debate • Rating of the quality of questions asked of the CEO • Ratings of inter-board relationships • Rating of directors' conduct • Level of diversity of the board • Number of skills-development opportunities available to board members • Staff violation rate • Percent of personnel who find that they are working under effective leadership • Percent of personnel who find that they do challenging work • Growth of the bank's branches • Employee participation in development programs • Number of employees using IT in their work • Labor productivity = result/labor costs • Value added per labor costs

(continued)

Table 8.1 (continued)

Perspective	Corporate performance measures
	• Value added per number of employees • Value added per labor time • Revenue per employee • Revenues from new products • Percent sales from new products • Level of satisfaction of internal customers • Employee turnover • Training hours per employee • Sales per employee • Availability of strategic information • Experience level of employees regarding information exchange • Percent of communication failures • Percent of available competences • Number of necessary skills • Number of required or followed training courses • Percent of qualified employees • Percent of employees that are trained in essential skills • Percent of employees with the need for crucial skills • Training costs of employees • Training costs of executives and managers • Training costs as a percentage of sales • Number of solved problems • Number of suggestions per employee • Number of suggestions implemented • Usable strategic information as a percent of available information • Percent of employees with a competence profile • Degree of existence of innovative technology • Percent of available strategic skills • Average time that someone stays in the same position • Percent of personnel with personal ambition linked to shared ambition of the organization

the greatest contribution to the CSFs. The central questions here are as follows: *How we want to achieve our objectives? Which improvement actions do we need to achieve this? How do we add value to our customers? How will we communicate our scorecard effectively?*

Corporate improvement actions are developed by selecting CSFs in the corporate ambition and translating these into corporate objectives, performance measures, targets, and related improvement actions. You may also perform a SWOT analysis and transform the corporate's strengths, weaknesses, and related opportunities and threats into corporate improvement actions. To illustrate what has been discussed about the corporate balanced scorecard, we will use the fictitious business case

Royal Standard Bank to illustrate this concept. Development and implementation of a code of corporate governance according to the authentic governance system is one of the improvement actions of this bank.

A variety of improvement actions can be taken as part of an effective corporate governance code, such as (Rampersad, 2003; Miller, Catt, & Carlson, 1996):

- *Writing a code of ethics*: this tells employees and managers how to act in various situations and makes clear to them that they will be expected to recognize the ethical dimensions of corporate policies and actions. This should always be included in the organizational shared ambition. Free and open communication is the key element in implementing codes of ethics. Steve Jobs stated the following about such communication*: I believe strongly in open communication within the firm. All employees have complete access to almost all information in the company, including other employees' salaries. Only when employees understand the entire master plan for the firm will they be able to make effective decisions that are in line with the company's values*.
- *Commitment to ethical business behavior*: top management must be openly committed to ethical conduct and must provide constant leadership in tending and renewing the values of the organization.
- Everyone within the organization must be made aware of the core values of the firm's ethics program. Involvement and commitment of personnel at all organizational levels is important in order to develop higher levels of trust and pride in the business.
- *Setting up a permanent ethics committee*.
- *Employing an ombudsperson*: someone in the company who can go directly to top management with problems or complaints.
- *Establishing "hot lines" for comments and complaints regarding unethical acts*: to process reports of unethical behavior. Employees should feel it is their duty to report violations.
- *Conducting in-house ethics seminars*.
- *Developing communication programs that emphasize corporate ethics*: to inform and motivate employees, customers, suppliers, shareholders, and the general public.
- *Executing ethical audits*: to ensure compliance by personnel on at least an annual basis.
- *Introducing enforcement procedures*, including discipline and dismissal for violations.
- *Paying special attention to values and ethics in recruiting and hiring practices*.
- *Giving recognition and rewards*: for exemplary ethical employee or managerial performances.

The position of Royal Standard Bank's objectives, within the four perspectives, and their mutual relationships are made visible in the corporate management system; see Fig. 8.3. In this cause-and-effect chain, the corporate's objectives are

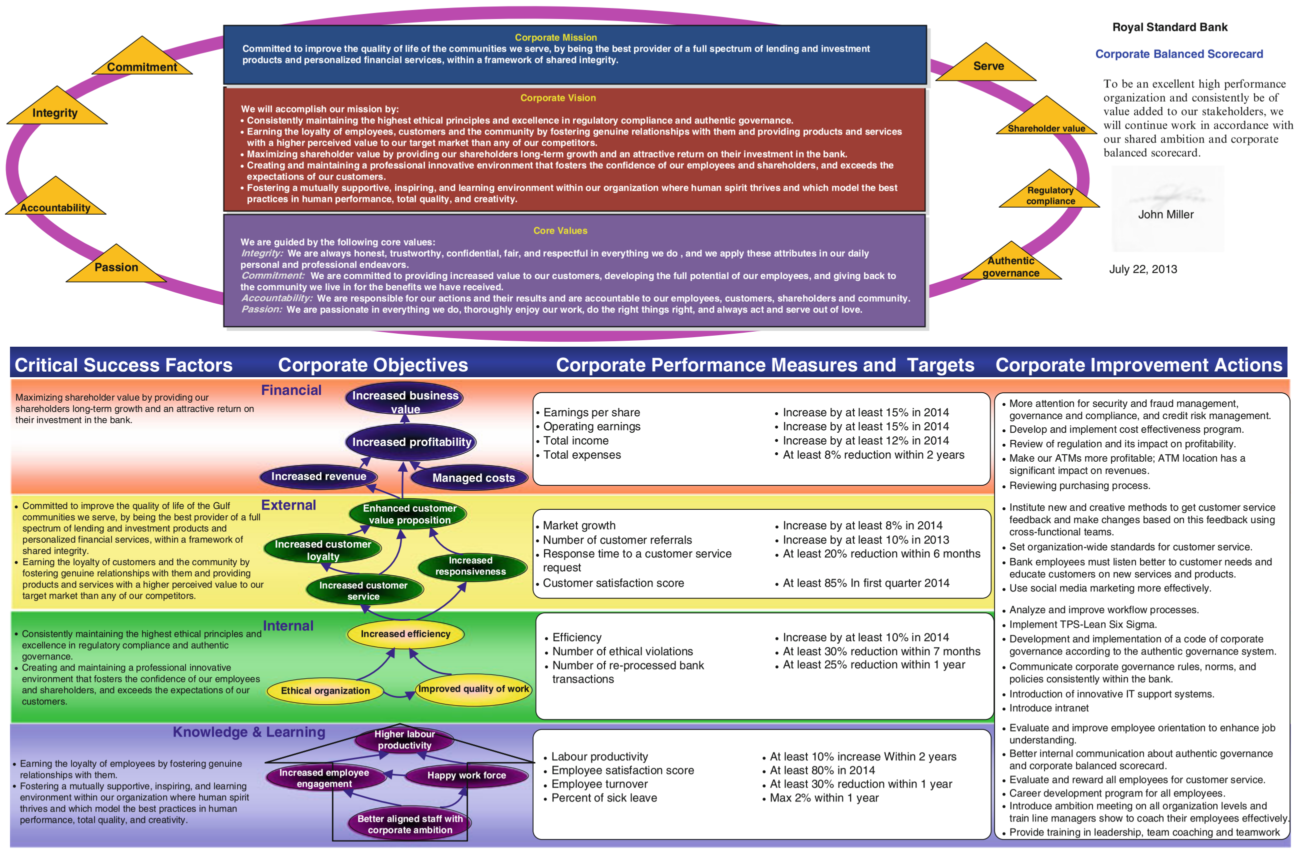

Fig. 8.3 Corporate balanced scorecard of Royal Standard Bank

interrelated and affect one another. The final objective is increased business value. All corporate goals result in this final overall objective, which is related to the corporate ambition. This diagram is a handy tool in communicating the corporate ambition and balanced scorecard to the stakeholders.

In the next chapter, we will focus on the implementation, maintenance, and cultivation of the corporate balanced scorecard, in order to govern the organization effectively. It is about corporate governance.

Chapter 9
Corporate Governance

> *"Never let your sense of morals get in the way of doing what's right."*
>
> —Isaac Asimov

Corporate governance has no value unless you implement and cultivate the corporate ambition and balanced scorecard effectively to make them a reality. This entails the third stage in the authentic corporate governance model; see Fig. 9.1.

This third stage entails governing the organization effectively based on the corporate balanced scorecard, according to the Plan-Deploy-Act-Cultivate cycle (Rampersad, 2009, 2010). This cycle must be followed continuously to govern and improve the organization continuously, deliver peak performance, and steer the organization towards ethical corporate excellence. The development and implementation of an effective corporate governance code of ethics will also be discussed in the next section.

Plan-Deploy-Act-Cultivate Cycle

> "*If it is not right do not do it*; *if it is not true do not say it*."
>
> —Marcus Aurelius

In the following sections, each of the phases in the PDAC cycle (see Fig. 9.2) will be discussed in depth.

Plan

First of all the organization should recognize its responsibility to formulate and update its authentic corporate ambition and related corporate balanced scorecard,

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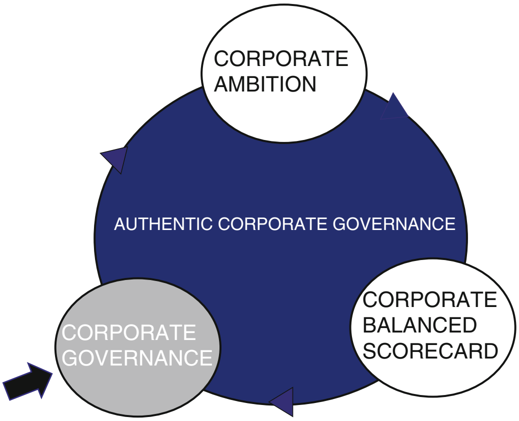

Fig. 9.1 Third stage in the authentic corporate governance model

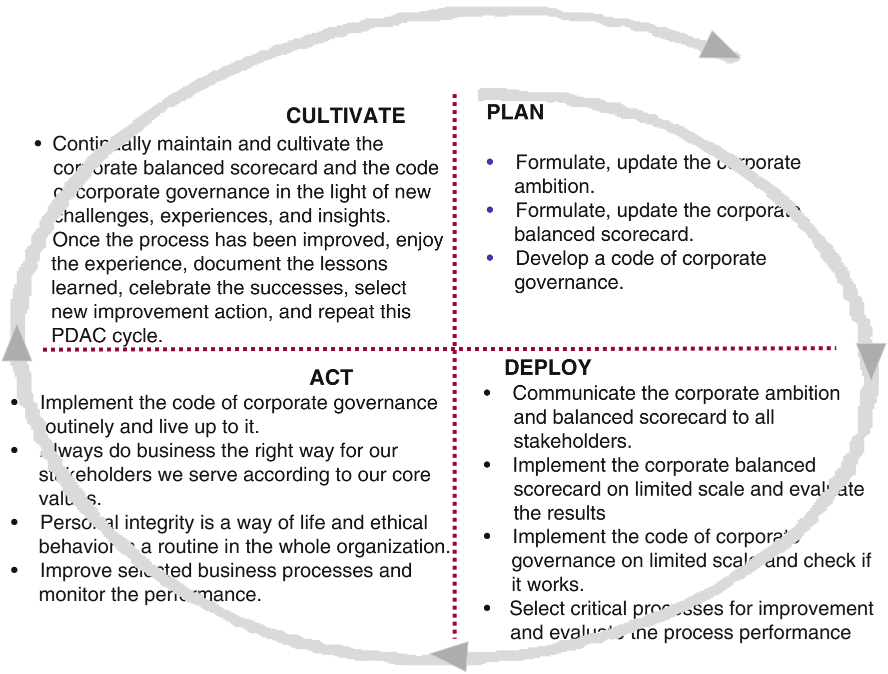

Fig. 9.2 The Plan-Deploy-Act-Cultivate cycle (Rampersad, 2009)

including the highest standards of corporate governance and ethical conduct. Development of a code of corporate governance is part of this stage.

Deploy

In this stage the top management must communicate the corporate ambition and balanced scorecard to all stakeholders effectively and consistently to create buy-in. Implement the corporate balanced scorecard on limited scale, keeping in mind the priorities that have been identified and check if the improvement action is working and take action when it is not. Implementing a code of corporate governance on limited scale and trying it out is part of this stage. Review the results according to the performance measures and targets defined in the scorecard, measure the progress, and check to what extent the organization has realized its objectives. If the organization has not been able to realize the objective, please do not worry about it. Just start again. In this stage it is also important to map critical business processes, select most the important business process for improvement, and evaluate the process performance.

Act

Implement the code of corporate governance routinely and live up to the highest standards of corporate governance and ethical conduct included in this code. So this stage focuses also on the implementation of formal corporate regulations, procedures, and guidelines. Always do business the right way with the organization's stakeholders, according to its core values. Personal integrity must be a way of life and ethical behavior must be a routine in the whole organization. In this stage it is also important to improve the selected business processes, improve related products and services, monitor the process performance, eliminate waste, streamline business processes, lower inventory levels, avoid redundant steps, reduce lead times, identify non-value-added activities (waste) in the value stream, and strip out this waste, using our unique humanized TPS-Lean Six Sigma techniques (Rampersad, 2005; Rampersad & El-Homsi, 2007).

Cultivate

Once you have formulated the corporate ambition, scorecard, and the related code of corporate governance, it is important to continue cultivating and maintaining these in the light of new challenges, experiences, and insights. You need to refine, fine-tune, and cultivate these as you go along, figuring out which parts work and which do not. You should make adjustments as necessary. The more you strengthen, maintain, and cultivate the corporate ambition and scorecard, the more successful the organization will be. It needs constant updating to reflect the new challenges the organization takes and the lessons learned. Once the selected business process has been improved, enjoy the experience, document what the organization has learned, celebrate the successes, and select a new business process to improve or a new improvement action. When the organization has accomplished all its goals, adjust the scorecard and repeat this PDAC cycle. Strategy formation, corporate governance, process improvement, development of human potential, and learning are all part of this perpetual process. Progressing through the PDAC cycle will result in the continuous improvement of business results through the years. Through this approach, the stakeholders are satisfied, and the organization is able to come to know itself and its surroundings on an ongoing basis.

Code of Corporate Governance Guide

> "*Waste no more time arguing about what a good man should be. Be one*."
>
> —Marcus Aurelius

In this section we discuss a guide that will assist you in the successful development and implementation of an effective code of corporate governance. This is based on best practices in more than 25 countries and in well-established corporations worldwide. It contains the following paragraphs with detailed explanation of the requirements and how best to go about implementing them, with a focus on banks (Hussain, 2007, 2009, 2011):

- Board of Directors
- Board in Action
- Audit Committee
- Nominating Committee
- Remuneration Committee
- Shareholders
- Code of conduct

The related appendices contain samples of important documents that are either mandatory or necessary for compliance with the requirements of the corporate governance code such as board and committee charters, conflict of interest, whistleblowing policies, and code of conduct. The guide further gives an implementation checklist with cross-referencing to the high level controls on corporate governance.

Board of Directors

> "*I am not bound to win, but I am bound to be true. I am not bound to succeed, but I am bound to live up to what light I have*."
>
> —Abraham Lincoln

According to Bank for International Settlements, BIS, the board of directors has overall responsibility for the bank, including approving and overseeing the implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. The board is also responsible for providing oversight of senior management (BIS, 2010). Banks should have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, spending its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets; and appropriate independent internal or external audit and compliance functions to test adherence to these controls as well as applicable laws and regulations. Corporate laws must identify the responsibilities of the board of directors with respect to corporate governance principles to ensure that there are effective controls over every aspect of risk management. These controls are the responsibility of the board of directors and deal with organizational structure, accounting procedures, checks and balances, and safeguarding of assets and investments. More specifically, these address:

- *Organizational structure*: definitions of duties and responsibilities including clear delegation of authority (e.g., clear loan approval limits for banks), decision-making procedures, and separation of critical functions (e.g., business origination, payments, reconciliation, risk management, accounting, audit and compliance)
- *Accounting procedures*: reconciliation of accounts, control lists, and information for management.
- *Checks and balances* (*or* "*four eye principles*"): segregation of duties, cross checking, dual control of assets and supervisory review processes
- *Safeguarding assets and investments*: including physical controls

To achieve a strong control environment, the board of directors and senior management of a company should understand the underlying risks in their business and that they are both committed to and legally responsible for the control environment.

Responsibilities of the Board

To promote safe and sound operating practices, it is imperative that the board assumes its role independently of the influence of the management. Members of the board should know their responsibilities and powers in clear terms. Further, it should be ensured that the board focuses on policy making and general direction and oversight and supervision of the affairs and business of the company and does not play any role in the day-to-day operations, as that is the role of the management.

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. The following gives accounts of board's responsibilities as defined by various international bodies and best practices:

- Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and its shareholders.
- Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.
- The board should ensure compliance with applicable law and take into account the interests of stakeholders.
- The board should fulfill certain key functions, including (OECD, 1999; see Appendix 19):
  - Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures.
  - Selecting, compensating, monitoring, and, when necessary, replacing key executives and overseeing succession planning.
  - Reviewing key executive and board remuneration and ensuring a formal and transparent board nomination process.
  - Monitoring and managing potential conflicts of interest of management, board members, and shareholders, including misuse of corporate assets and abuse in related party transactions.
  - Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
  - Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.
  - Overseeing the process of disclosure and communications.
- The board should be able to exercise objective judgment on corporate affairs independent, in particular from management.
- Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination, and executive and board remuneration.
- Board members should devote sufficient time to their responsibilities.
- In order to fulfill their responsibilities, board members should have access to accurate, relevant, and timely information.

It is also advisable to split the role of Chairman and Chief Executive Officer and the board to have formal schedule of matters and to meet regularly. According to the Common Wealth Association the board should:

- Exercise leadership, enterprise, and judgment in directing the business.
- Set objectives and strategies of the organization.
- Ensure development of key policies and their implementation.
- Monitor, evaluate, and review the aims, strategies, policies, etc.
- Form committees in key areas and ensure their functionality.

- Ensure the company's adherence to laws of the land, regulations, and best practices.
- Ensure existence of communication web among all stakeholders.
- Ensure the efficacy of systems, procedures, and internal controls.
- Ensure working of a right blend of human and material (technological) resources.
- Ensure the identification and mitigation of all risks.
- Set key performance indicators of the business enterprise.
- Ensure the flexibility of structure, products, and delivery to face the challenge of fast-coming globalization.

The role and responsibilities of the board include but are not limited to:

- The overall business performance and strategy of the company
- Causing financial statements to be prepared which accurately disclose the company's financial position
- Monitoring management performance
- Convening and preparing agendas for shareholder meetings
- Monitoring conflicts of interest and preventing abusive related party transactions
- Assuring equitable treatment of shareholders, including minority shareholders

The board should, at minimum, also be responsible for performing the following roles and responsibilities:

- *Duty to approve and monitor company strategy*: The board should assume overall responsibility of the company's business, risk management, and financial soundness. Thus, the board should review, approve, and monitor the objectives, strategies, and overall business plans of the institution, in line with shareholders' expectations.
- *Duty to ensure legal and regulatory compliance*: All board members should undertake and fulfill their duties and responsibilities keeping in view their legal obligations under all the applicable laws and regulations.
- *Duty to establish optimal management structure*: The board should clearly define the authorities and key responsibilities of both the directors and the senior management without delegating its policy-making powers to the management and shall ensure that the management is in the hands of qualified personnel. In addition, the board should be responsible for human capital development process, including appointing, training, fixing the remuneration of and, where appropriate, replacing senior management, and succession planning.
- *Duty to ensure optimal control environment*: The board should approve and ensure implementation of policies, including but not limited to in areas of Internal Audit and Control, Compliance, Risk Management, Human Resources, Finance, Treasury Management, Investments, Acquisition/Disposal of Fixed Assets, Donations/Charities, Prevention of Frauds and Forgeries, and any other operational area which the board and the management may deem appropriate from time to time. The board should also be responsible for reviewing and updating existing policies periodically and whenever circumstances justify.

- *Duty to oversee company performance*: The board should ensure the existence of an effective "Management Information System" to remain fully informed of the activities, operating performance and financial condition of the institution, the environment in which it operates, and the various risks it is exposed to and to evaluate the performance of the management at regular intervals.
- *Duty to implement corporate governance*: The board of directors should show leadership and "set the tone at the top." The Board Chairman should place corporate governance issues on the agenda of board meetings to ensure an efficient and timely treatment of all issues arising out in this respect. The board should also adopt code of conduct for itself and senior management.

Responsibilities of Board Members

The above section has outlined the responsibilities of the board collectively. However, since the board is composed of various members, the best practices require that each member of the board should be held individually responsible for his/her activities as board member. The directors are required to exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the listed company. The principal responsibilities of director/board member include the following:

- *Duty of good faith*: The duty of good faith demands that the director is reliable and trustworthy, acts with integrity, and does not seize corporate opportunities for his/her own self-interest. It further requires the director to act in the best interest of the company at all times and to avoid any action that causes or could cause any conflict of interest with the company. The shareholders and related stakeholders must be confident that the director will at all times deal with the affairs and decisions of the company in good faith and unquestionable trust. Without good faith and trust, no director has any business serving on the board of a company.
- *Duty of skill*: The duty of skill deals with the necessity of demanding from the management timely, accurate and complete information and data relating to the affairs of the company. The director's skill and knowledge must be used and applied in the analysis and evaluation of information and reports. Right decisions demand the honest application of brainpower and the most appropriate ways of conduct.
- *Duty of diligence*: The duty of diligence makes the director's knowledge of the industry in which the company is operating a prerequisite for his/her selection to the board. The director must use such industry knowledge to pay attention to the details of all proposals referred to the board for consideration. Part of the details that need to be considered to arrive at board resolutions are the

company's relationships with its stakeholders. Those resolutions might be received by shareholders and stakeholders. The other dimension that must be looked at by the director in a diligent manner is the impact of the company's business and decisions on others—what kind of precautions he/she needs to consider to mitigate any negative impact on others. "Others" here include customers, service users, competitors, and the society within which the company operates. The social responsibility of the company's business must be respected and protected.
- *Duty of care*: Organization for Economic Cooperation and Development (OECD) defines this as the duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a "prudent man" would approach his own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule.
- *Duty of loyalty*: OECD defines this as the duty of the board member to act in the interest of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders.

Each director is held personally accountable to the company and its shareholders, if he/she violates his/her duty of loyalty to the company. He/she can be personally sued by the company or the shareholders for such violations.

To perform the above key responsibilities, the board can be guided by the following:

- Each director should ensure that he/she has familiarized himself/herself with the by-laws of the company, its internal regulations, and the general and specific obligations of his/her office.
- Each director should represent the interests of all shareholders and should act under all circumstances in the best interests of the company.
- Each director should ensure the effective functioning of the board of directors (a director should not accept more than a number of other directorships so as to be able to properly discharge his/her duties).
- Each director must take into account the legitimate expectations of all of the company's partners or stakeholders (employees, clients, executives, suppliers and creditors).
- Each director must report to the board any conflict of interests, whether actual or potential, and abstain from taking part in voting on the related resolution.
- The director should apply to his/her duties the necessary time and attention and should, subject to all applicable laws and regulations, consult the Corporate Governance and Nomination Committee before accepting any additional seat on another board of directors.
- The director should attend all meetings of the board and meetings of the committees on which he/she sits.

- The director is under a duty to obtain all necessary information and request from the Chairman that such information be communicated.
- Regarding nonpublic information, each director should consider himself/herself bound by confidentiality obligations with regard to all information learned upon nomination or during exercise of his/her functions.
- Attend the meetings of the shareholders.
- Ensure that the company has established an effective governance system and process.
- Refrain from rushing into decision-making; provide adequate time for deliberations and evaluations of transactional and financial matters.
- Require sufficient notice and distribution of board papers and explanatory appendices in advance of meetings.
- Convene supplemental meetings in response to requests for further information before the final decision.
- Make informed decisions based on the information provided and analysis and recommendations of the company's independent professional advisers.

Rights and Powers of the Board of Directors

In order to fulfill the above responsibilities, the board should be fully authorized, by the shareholders, to act on the company's behalf and make all high-level business decisions. In order to discharge their responsibilities, the directors of the board should at least have the following rights:

- *Right to access independent advice*: The directors should be authorized to seek independent legal or other professional advice at the company's expense whenever they judge this necessary to discharge their responsibilities as directors. However, this should be in accordance with the company's policy approved by the board.
- *Right to access Company Secretary*: The director should have direct access to the Company Secretary who should have responsibility for reporting to the board on board procedures. Moreover, the appointment and removal of Company Secretary should be a matter for the board as a whole, not for the CEO or any other officer.
- *Right to access company management*: The board as well as each director should have free access to the company's management beyond that provided to it in board meetings. Such access should be through the Chairman of Audit Committee, or CEO.

The board should collectively be authorized to make decisions relating to the following subjects:

- Appointment, remuneration, and terms and conditions of employment of the Chief Executive Officer (CEO) and other executive directors

- Investment and disinvestment of capital
- Write-off of bad debts, advances, and receivables and determination of a reasonable provision for doubtful debts
- Write-off of inventories and other assets
- Determination of the terms of and the circumstances in which a law suit may be compromised and a claim/right in favor of the company may be waived, released, extinguished, or relinquished
- To make calls on shareholders in respect of moneys unpaid on their shares
- To issue shares
- To issue debentures or any instrument in the nature of redeemable capital
- To borrow moneys otherwise than on debentures
- To make loans
- To approve annual or half-yearly or other periodical accounts as are required to be circulated to the members
- To approve bonuses to employees

Board Size, Composition, and Chairman

The board membership is classified into three types: e*xecutive director*, *non-executive director*, and *independent director*. An executive director is an officer or employee, or is otherwise involved in day-to-day management, of either the company, another company which is a controlling shareholder of the company, another company of which the company is a controlling shareholder, or another company which is controlled by a controlling shareholder of the company. The executive directors should provide the board with all relevant business and financial information within their cognizance and should recognize that their role as a director is different from their role as an officer.

A non-executive director is any director who is not an executive director. Non-executive directors should be fully independent of the management and should constructively scrutinize and challenge management including the management performance of executive directors. An independent director is a non-executive director who is also independent.

Organizations are generally faced by many questions when establishing a board of directors, such as how many board members should be appointed or what are the competencies required from a board member. The number of the board members shall be at least five members appointed for a period of 3 years, renewable. The board should have no more than 15 members and should regularly review its size and composition to assure that it is small enough for efficient decision-making yet large enough to have members who can contribute from different specialties and viewpoints.

Corporate governance standards recommend that:

- At least half of a company's board should be non-executive directors and at least three of those persons should be independent directors.

- The Chairman of the board should be an independent director and in any event should not be the same person as the CEO. The Chairman of the board is the company's chairman and represents it before third parties, and his signature is considered as a signature of the board of directors before third parties.
- Among the board members, one person is elected as Chairman of the board of directors. The Board Chairman should be elected for a period of 1 year unless the company's articles of association provide for another period.

The Basel Committee on Banking Supervision explains the role of the Chairman as critical in the proper functioning of the board:

- The Chairman of the board provides leadership to the board and is responsible for the board's effective overall functioning, including maintaining a relationship of trust with board members. The Chairman should possess the requisite experience, competencies and personal qualities in order to fulfill these responsibilities.
- The Chairman should ensure that board decisions are taken on a sound and well-informed basis. He/she should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process.
- To achieve appropriate checks and balances, an increasing number of banks require the Chairman of the board to be a non-executive, except where otherwise required by law. Where a bank does not have this separation and particularly where the roles of the Chairman of the board and Chief Executive Officer are vested in the same person, it is important for the bank to have measures in place to minimize the impact on the bank's checks and balances of such a situation.

Appointment of Directors

The company shall have rigorous procedures for appointment, training, and evaluation of the board. Considering the importance of hiring the right candidate to serve on company's board, it is important to highlight the processes and competencies required for appointing directors. A director needs to have appropriate experience and skill set in order to perform his role and responsibilities diligently. Accordingly, the requirements from a potential director should be well defined and articulated. In some countries the Central Bank has mandated that financial institutions are required to request the Central Bank's clearance before appointing any person as director, CEO, or senior manager of a controlled function. It requires that a person should be able to demonstrate professional integrity, honesty, and good reputation; professional competence, experience, and expertise (sufficient for the function for which authorization is being applied for and given the scale, complexity, and nature of the business concerned); and financial soundness. "Fit and Proper" criteria shown below can be used to evaluate suitability of the person.

Fit and Proper Requirements (CBB Bahrain)

In assessing a person's fitness and propriety, you need to consider previous professional and personal conduct, including but not limited to the following:

- The propriety of a person's conduct, whether or not such conduct resulted in a criminal offense being committed, the contravention of a law or regulation, or the institution of legal or disciplinary proceedings.
- A conviction or finding of guilt in respect of any offense, other than a minor traffic offense, by any court or competent jurisdiction.
- Any adverse finding in a civil action by any court or competent jurisdiction, relating to fraud, misfeasance, or other misconduct in connection with the formation or management of a corporation or partnership.
- Whether the person has been the subject of any disciplinary proceeding by any government authority, regulatory agency, or professional body or association.
- The contravention of any financial services legislation or regulation.
- Whether the person has ever been refused a license, authorization, registration, or other authority.
- Dismissal or a request to resign from any office or employment.
- Disqualification by a court, regulator, or other competent body, as a director or as a manager of a corporation.
- Whether the person has been a director, partner, or manager of a corporation or partnership which has gone into liquidation or administration or where one or more partners have been declared bankrupt while the person was connected with that partnership.
- The extent to which the person has been truthful and open with supervisors.
- The extent to which the person has appropriate professional and other qualifications for the controlled function in question.
- The extent to which the person has sufficient experience or is otherwise able to perform the functions of the controlled function in question.
- Whether the person has ever been adjudged bankrupt, entered into any arrangement with creditors in relation to the inability to pay due debts, or failed to satisfy a judgment debt under a court order.

Attributes of a Director

The company should look also to some other skill sets and attributes while evaluating the suitability of a person for directorship. These are included in Fig. 9.3.

With the view to enhancing the effectiveness of those serving as board members, it is advisable that the number of directorships should be limited so that the person may focus on his fiduciary and other responsibilities towards the company. The best practices recommend that one person should not hold more than three directorships

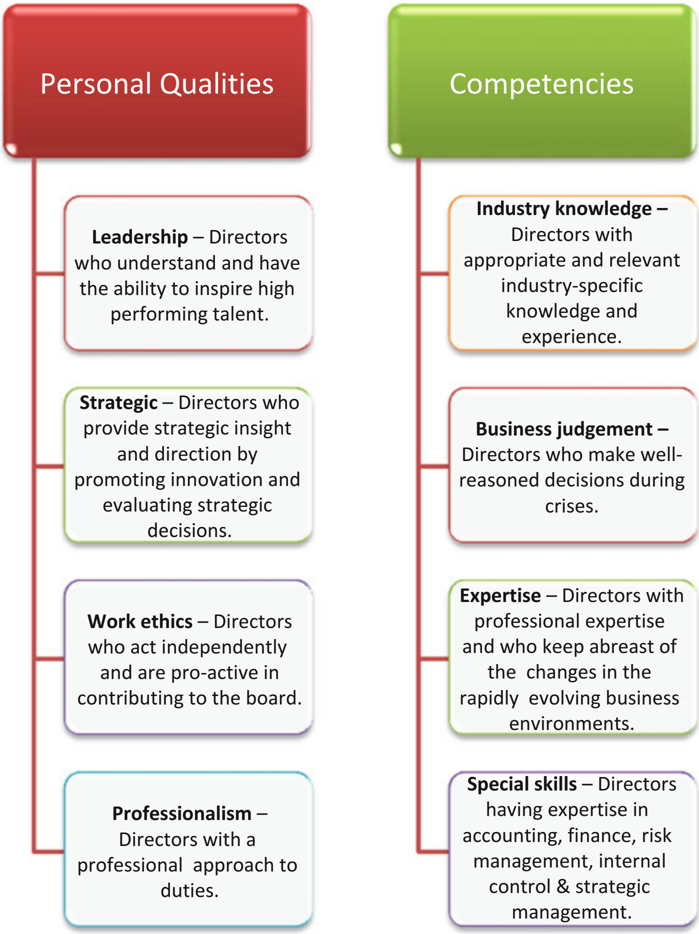

Fig. 9.3 Additional skill sets and attributes of a director (Hussain, 2011)

with the provision that no conflict of interest may exist, and the board should not propose the election or re-election of any director who does. No board member may have more than one directorship of a retail bank or a wholesale bank. This means an effective cap of a maximum of two directorships of financial institutions.

Tenure of Membership

It's advisable that the maximum tenure of board membership should not exceed 3 years. There is no doubt that fixing the number of years for a director or fixing the number of times of an election constitutes a major problem for many companies.

This is because there are inadequate numbers of appropriately qualified board members. Secondly, the shareholders in this region are wary of trusting someone who does not own shares in the company with the responsibility of corporate management as they perceive there may be risks of divided loyalty or conflict of interest. Thus, we may continue to see board members remaining in their offices for many years. However, it is important to understand the underlying philosophy for fixing tenure of membership—to make sure that the board members are adding value to the company instead of just occupying an office for an indefinite period. Having a checkpoint after 3 years ensures that a thorough review is undertaken before a board member is re-elected for another period.

Appointment Letter for New Directors

Each new director should expressly provide his consent to act on the board of directors. The explicit consent needs to be documented in the form of an appointment agreement. The company should have a written appointment agreement with each director which lays out the director's powers and duties and other matters relating to his appointment including term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed. In addition, it is recommended that each new director should read, understand, and sign the following documents:

- Conflict of interest policy of the company
- Code of conduct for the board members

A detailed explanation of what should be included in the above two documents will be provided in subsequent sections. A sample appointment letter for board members is provided in Appendix 1.

Director's Orientation

As with any other key position in the company, it is very important to acquaint the new director with company processes, board rules, and regulations and his detailed responsibilities. It is however noted that this process is not properly laid down in many companies. When a new director is inducted, the Chairman of the board, assisted by company legal counsel or compliance officer, should review the board's role and duties with that person, particularly covering legal and regulatory requirements. The Chairman of the board should ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of his term. The induction should include:

- Meetings with senior management
- Visits to company facilities
- Presentations regarding strategic plans
- Significant financial, accounting, and risk management issues
- Compliance programs
- Meetings with internal and independent auditors and legal counsel

It is advisable that all continuing directors should be invited to attend orientation meetings and all directors should continually educate themselves as to the company's business and corporate governance. In addition to induction training, it is also recommended that periodic refresher courses or presentations should be arranged for directors so that the directors may keep themselves abreast of the latest developments in the field of the company's business. Management, in consultation with Chairman of the board, should hold programs and presentations to directors respecting the company's business and industry, which may include periodic attendance at conferences and management meetings. The Nomination Committee shall oversee directors' corporate governance educational activities. In order to help board members acquire, maintain, and deepen their knowledge and skills and to fulfill their responsibilities, the board should ensure that board members have access to programs of tailored initial and ongoing education on relevant issues. The board should dedicate sufficient time, a budget, and other resources for this purpose.

Board Charter

The Board must adopt a formal Board Charter or other statement specifying matters which are reserved to it, which should include but need not be limited to the specific requirements and responsibilities of the directors. The responsibilities and powers of the board of directors and individual board members must be documented in form of a formal Board Charter or Terms of Reference document. The Charter should also include rules on the number of board meetings, proxy rules, the number of board members, the tenure of membership, and appointment and reappointment procedures and should refer to the code of conduct for the board. Every Board is encouraged to have a board charter outlining the roles and responsibilities of directors. The following are some of the matters that should be considered when developing a board charter:

- A general outline of the board's purpose
- An overview of the board's monitoring role
- Structure and membership, including a requirement that one-third of members or two directors, whichever is higher, be independent non-executive directors
- A formal schedule of matters reserved for the board, including authority levels
- A position description of the role of the chairman, CEO, and executive directors
- Appointment of board committees
- Director's orientation and education programs

- Agreed procedure on taking independent professional advice at the company's expense in furtherance of the directors' duties (whether as a board or in their individual capacity)

The Charter should be periodically reviewed and updated in accordance with the needs of the company and any new regulations that may have an impact on the discharge of the board's responsibilities. A sample board charter is provided in Appendix 2.

Board in Action

> "*Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful.*"
>
> —Samuel Johnson

Board Meetings

Board meeting is an effective and formal method to discharge the responsibilities of the board of directors. Accordingly, the Chairman of the board should take an active lead in promoting mutual trust, open discussion, and constructive dissent during board meetings. The frequency of board meetings depends upon the company's requirements. However, best practices suggest that the board should meet frequently to effectively perform its functions. The board should meet frequently but in no event less than four times a year, all directors should attend the meetings whenever possible, and the directors should maintain informal communication between meetings.

Board meetings are convened upon request by the Chairman. However, the Chairman may also call the meeting upon written request by two board members. In order to hold effective meetings, a formal *agenda* should be developed and approved by the Chairman. The Chairman should ideally consult with other members of the board and CEO before finalizing the agenda. The Chairman should ensure that all directors receive the agenda, minutes of prior meetings, and adequate background information in writing before each board meeting and when necessary between meetings. All directors should receive the same board information.

Best practices suggest that following items should frequently appear in the agenda for a typical board meeting:

- Business planning
- Direction and strategy formulation, including review
- Risk management issues and resolution
- Budget, approval and monitoring against actual performance, including variance reporting
- Funding requirements

- Formulation and monitoring of key company policies
- Evaluation of management's performance
- Corporate exercises, e.g., acquisitions, mergers, divestments, and takeovers
- Regulatory changes that impact upon the company's business
- Emerging business issues
- Corporate disclosures and announcements
- Investor and stakeholder relations
- Litigation matters against the company

The Chairman should ensure that all board members receive comprehensive information about what to be discussed in the board, the relevant documents and updates, minutes of prior meetings, etc. The directors have legal duty to keep themselves informed and updated and should ensure that they receive timely and adequate information regarding all matters to be discussed in the board meeting. Also, they should thoroughly read and understand all information before the meeting. Best practices suggest that board meeting papers with accompanying explanations should be received by board members at least 7 days prior to the meeting, so that they may get sufficient time to properly go through all papers. The timing of board meetings should be finalized in consultation with all directors to ensure that all directors can attend the meeting. The duration of the meeting should be such that ample time can be given to discuss each item on the agenda.

As the Board is composed of a group of directors, it is highly desirable that each director attends board meeting and participate in board discussions. Regular attendance and participation in board meetings signify that members take their responsibilities seriously and are committed to performing the responsibilities assigned to them. Individual board members must attend at least 75 % of all board meetings in a given year to enable the board to discharge its responsibilities effectively. In addition to directors, boards should also invite members of senior management to attend board meetings, especially the Chief Executive Officer or President. While management members are not entitled by right to attend board meetings, the board should encourage participation by management regarding matters the board is considering and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.

It is also a legal requirement that all proceedings of the board meeting should be documented in form of minutes of the meeting. The board members should carefully read the minutes of prior board meeting and provide their comments. The Chairman should then approve the minutes. This is usually the first item on agenda of the board meeting.

Board's Decision-Making Process

The board also has significant responsibilities related to *strategic management*, *financial performance review*, *enterprise risk management*, *corporate governance*, and *relationship with the company's management and investors/shareholders*. In addition to this, the board is encouraged to discuss other important environmental, regulatory, competitors' related, and industry trends as well.

Strategic Management

Strategic management is one of the most important responsibilities of a board. The board has overall responsibility of laying down company strategy (corporate balanced scorecard) and review performance against strategy, as discussed in Chaps. 7, 8, and Sect. "Plan-Deploy-Act-Cultivate Cycle." Table 9.1 provides an overview of tasks involved in corporate strategy formulation and implementation and suggests roles of the board and company's top management (Wyman, 2003).

Financial Performance Review

The board is also responsible to review financial performance of the company and to review interim and annual financial statements. The board should hold either directly or through its committees meetings with company's external auditors to discuss the results of the audit and to seek clarification if there is any concern about the financial statements. Board members must therefore be financially literate and should be able to read and understand financial reports submitted by management. The following significant functions are performed by boards with regard to a financial performance review:

a. *Implement a Financial Performance Reporting System*
   Boards have the fiduciary responsibility to ensure that financial statements are prepared which accurately disclose the company's financial position. It is essential to design, develop, and implement a reliable and efficient financial performance reporting system to assist boards in getting accurate and reliable information on timely basis. The financial reporting system should be capable of providing board members with adequate information assisting them in answering the following key questions:

   - How is the overall financial performance of the company? What is the profitability? Is it according to budget/plans?
   - What is the asset quality of the company? Are these assets generating appropriate returns? Are assets being used satisfactorily towards maximizing shareholder's wealth?
   - Has there been any instance of financial fraud? If so, how was it perpetuated and what measures can be taken to prevent a recurrence?
   - Are creditors paying? Has the company made appropriate provisions against unpaid receivables?
   - Are policies in place regarding expense authorization, procurement, investment/disinvestment, financial risk management, etc.? Appendix 5 provides a sample Authorization policy.
   - Is there an authorization matrix developed to assign thresholds on spending and approving expenses?
   - Are shareholders compensated adequately? What is the dividend policy?
   - Is the treasury department properly resourced and adequately managed?

Table 9.1 Tasks in corporate strategy formulation and implementation and roles of the board and top management (Wyman, 2003)

Task	Description of task	Role of top management	Role of the board
Strategic thinking	Collecting, analyzing, and discussing information about the environment of the company, the nature of competition, and broad business design alternatives	• Initiate the process of strategic thinking • Set the agenda and boundaries in line with the nature of business • Provide complete and comprehensive information • Actively participate with the board in the discussion • Summarize the outputs	• Actively participate in the strategic thinking process • Bring an outside perspective and accumulated wisdom • Test the consistency of management's thinking • Collaborate with management
Strategic decision-making	Making underlying decisions about design and portfolio of business	• Make critical decisions • Develop proposal to the board seeking approval of critical decisions and resource needs • Engage with the board during decision-making and approval process	• Advise management and provide inputs on decision-making • Conduct final review and approve major decisions
Strategic planning	Converting the critical decisions taken in the above step into objectives, priorities, resource allocation, and other actions to execute the strategy	• Develop plans, working with operating management and outside consultant (if required) • Review plans to ensure consistency with corporate strategic direction • Present plans to the board for review and approval	• Review core strategic plans • Determine risks and consequences of the strategic plan and ensure complete understanding of risk-reward relationship • Comment and make suggestions to improve the plan • Approve plans
Strategic execution	Undertaking the various strategic initiatives consistent with the approved strategic plan, including adjustments over time to account for externalities and environment changes	• Periodically review the process and progress of implementation of key strategic initiatives	• Ensure resources and leadership to execute the plans are in place • Monitor the progress of the execution • Make appropriate changes in either the execution or the plan, depending upon outcomes

- Is the company solvent? Is it able to service its debts and pay off its loans on time?
- It is advisable that the board should specify any limits which it wishes to set on the authority of the CEO or other officers, such as monetary maximums for transactions which they may authorize without separate board approval.

b. *Review Report on Reporting*
Boards are generally responsible for ensuring the quality, accuracy, and timeliness of all financial reports sent to regulators and other stakeholders. It is however not realistic for the board to review each and every report before it is sent out. Therefore, it is recommended that they should monitor reporting activities as a whole and review a sample of management's report on frequent basis. In addition, boards may find it useful to develop a formal process of reporting whereby management should apprise the board on each report developed and sent to an outside party. This would act as an inventory of all reports created by the management. The following may assist towards this end:

- *Design a report on reporting*: Management may be asked to develop a summary report listing each report, its recipient, brief description, due date, actual completion date, etc. For example, financial institutions may make use of this report to record all forms, returns, reports submitted to the Central Bank, and their frequency.
- *Reports in the board report*: The board should be kept updated about all the financial reports and submissions made to regulators and other outside parties. The board, if it wishes to, may also require management to include all outside reports as annexure to regular board reports.
- *Review/verification process*: The board may decide to review a sample of these reports for its comfort or may direct internal audit or compliance function to review the same for confirming accuracy of reporting process.

c. *Review and Certify Financial Statements*
Boards are required to certify the accuracy of financial statements before these are published. Although this requires that board members must be capable of interpreting financial information by reading financial statements, no one can absorb all the details in a financial report. It is thus recommended that management should provide narrative description and summaries, as well as charts and graphs to facilitate board members in understanding financial reports. In addition, boards may make use of popular tools used widely for interpreting financial performance, such as ratio analysis or trend analysis.

Although review of financial position and performance is responsibility of the board as a whole, this can be delegated to an Audit Committee.

Enterprise Risk Management

There is an ever-increasing expectation from the board of directors to provide assurance to the shareholders on the adequacy and effectiveness of a company's system of internal controls. This has led to an evolution in the way today's boards perceive

Fig. 9.4 Four aspects of board oversight with reference to ERM (Hussain, 2011)

the importance of risk management oversight. Boards can be guided by the internal controls guidelines published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) while reviewing organization's risk management framework. COSO defines enterprise risk management as: "*Enterprise risk management is a process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives*."

There are numerous benefits from adopting a formal and structured enterprise risk management mechanism. The Institute of Internal Auditors advocates that enterprise risk management enhances an organization's ability to:

- Align risk appetite and strategy.
- Link growth, risk, and return.
- Enhance risk response decisions.
- Minimize operational surprises and losses.
- Identify and manage cross-enterprise risks.
- Provide integrated responses to multiple risks.
- Seize opportunities.
- Rationalize capital.
- Deal effectively with potential future events that create uncertainty.
- Respond in manner that reduces the likelihood of downside outcomes and increases the upside.

The board has also the responsibility to oversee the implementation of the enterprise risk management (ERM) framework of the company.

COSO identifies the following four aspects of board oversight with reference to ERM; see Fig. 9.4:

- *Understand Risk Philosophy and Appetite*: Boards need to understand the overall risk philosophy of the organization. Risk appetite is the amount of risk, on a high level, which an organization is willing to accept in pursuit of stakeholder value. Since boards are responsible for protecting stakeholders' interests, boards should get involved in creating organization's risk philosophy and identifying the acceptable level of risks. This is needed to prevent an organization becoming a victim of excessive controls which would lead to low risk taking and will ultimately result in lower returns. It is to be remembered that organizations do need to assume risks in normal course of doing business with the objective to maximize shareholder value.

- *Supervise ERM Implementation*: Boards should keep themselves aware of the extent to which effective enterprise risk management is established in an organization. This should include a review of the existing risk management process by way of challenging management to demonstrate the effectiveness of risk management processes and providing guidance and leadership to improve the entire process.
- *Review Inherent Risk Portfolio*: The Board needs to review the organization's risk portfolio as compared to risk appetite. Effective board oversight of risks is dependent on the board's ability to understand and assess an organization's strategies with risk exposures. Thus, board meeting papers should include both the strategic initiatives and enterprise-wide risk exposures. The board should then ensure that risk exposures are consistent with risk appetite for each strategic initiative.
- *Monitor Significant Risks and Controls*: Identifying, assessing, and managing the organization's significant enterprise-wide risk exposures are the management's responsibility. However, boards should be updated with the most significant risks and the controls being implemented to mitigate these. Regular updating by management to boards of key risk indicators is critical to effective board oversight of key risk exposures for preservation and enhancement of stakeholder value.

The board may decide to delegate this task to the Audit Committee who can seek assistance from the organization's internal audit department. Internal audit can provide useful insight into the overall process of enterprise risk management. However, similar to strategic management, the board remains ultimately responsible to perform risk management oversight function. Appendix 3 provides some questions that should be considered while evaluating the effectiveness of enterprise risk management.

Corporate Governance

There are many definitions of corporate governance. According to the OECD: "It is a set of relationships between a company's management, its board, its shareholders and other stakeholders." Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently. According to Prof. Kenneth Scott of Stanford Law School: "*Corporate governance includes every force that bears on the decision making of the firm that would encompass not only the control rights of stockholders*, *but also the contractual covenants and insolvency powers of debt holders*, *the commitments towards employees*, *customers and suppliers*, *the regulations and the statutes. In addition*, *the firm's* *decisions are powerfully affected by competitive conditions in the various markets in which it operates*." The Cadbury Committee has defined corporate governance as follows: "*It is a system by which companies are directed and controlled*."

We have defined corporate governance in holistic and authentic terms, namely, *the systematic process of continuous*, *gradual*, *and routine corporate improvement*, *steering*, *and learning that lead to sustainable high corporate performance and ethical corporate excellence*.

The main reasons why this subject has gained so much importance in modern times are:

- To educate the public and to promote better understanding of essential corporate governance principles.
- To provide the board of directors and the management with adequate powers to be exercised in clearly defined line of responsibilities so that they stand accountable to the shareholders in the pursuit of maximization of value for the company.
- To promote induction of independent, non-executive company directors with diverse background and experience.
- To recognize issues of maintaining continuity of management through succession planning, identifying opportunities, facing challenges, and managing change with the business and appropriate allocation of resources.
- To encourage corporations to adopt internationally accepted accounting principles, standards of financial disclosure, conflict of interest disclosure, antitrust laws, and bankruptcy laws.
- To optimize a matrix of incentives, checks and balances, communication, fairness, disclosure, transparency, business ethics, and social responsibility. It intends to balance economic and social goals and individual and shared objectives.
- To make corporations feel the need for good corporate governance in a globalized world where the perception of both international and local investor is driven by management structures and the credibility of business. In such an environment, corporations must proactively design their culture-specific codes and actively implement these codes, instead of sitting and waiting for rules to be imposed from external constituents.

The board is responsible for ensuring that an effective corporate governance process has been put in place. Some of the key responsibilities of boards towards corporate governance include the following:

- Appointment of key personnel after ensuring that they are fit and proper for their jobs
- Promotion of corporate values, ethics, code of conduct for appropriate behavior, and institution of a system to ensure compliance with them
- Articulation of the corporate strategy and the contribution to the board of directors
- Institution of a forum interfacing the board of directors, senior management, and the auditors
- Putting in place sound internal control system, including internal and external audit functions and risk management functions, independent of business lines

- Special monitoring of situations where conflict of interest arises, including business relationships with borrowers affiliated with the bank, large shareholders, senior management, or key decision-makers within the bank
- Offer of incentives (monetary and otherwise) to management (senior, business line) and employees in the form of compensation, promotion, and other recognition
- Channeling flow of information both within and outside the organization (the public)

In order to effectively perform the responsibilities relating to corporate governance, companies must establish a Corporate Governance Committee consisting of at least three independent members from the board of directors. This committee is responsible for developing and recommending changes from time to time in the company's corporate governance policy framework. At each shareholders' meeting, the board shall report on the company's compliance with its guidelines and the corporate governance code and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified. In addition to the above, it is advisable that companies should publish their corporate governance reports on their Web sites. Appendix 4 provides a checklist that can be used by boards to perform self-assessment against the requirements of the code (CIPE, 2010; Hussain, 2011).

Boards should ensure, through their committees, that an annual statement on compliance with the code of corporate governance is submitted for the board's review. The statement should also be submitted in annual general meetings. Corporate governance should also be on the agenda of each board meeting where the board should be updated on any significant issue with regard to governance. Furthermore, the best practices and emerging trends in corporate governance encourage companies to either fully comply with all provisions of the code or explain the reasons for noncompliance. This is termed the *Comply or Explain Principle*.

Relationship with Company's Management and Investors/Shareholders

It is the board's responsibility to implement a formal and well-defined management structure and then perform periodic monitoring and supervision of the management's performance. The board shall appoint officers whose authority shall include management and operation of current activities of the company, reporting to and under the direction of the board. The board should get directly involved in appointing the CEO/President, Chief Financial Officer, Corporate Secretary, and Internal Auditor. Each of these senior management members must have a proper description of the duties and responsibilities to be performed, rights and powers and internal reporting responsibilities. The board shall adopt by-laws prescribing each senior officer's title, authorities, duties, and internal reporting responsibilities. The key responsibilities of each officer should be defined as well, as shown in the following:

- *CEO*: shall have authority to act generally in the company's name, representing the company's interests in concluding transactions on the company's behalf and giving instructions to other officers and company employees.
- *Chief financial officer*: shall be responsible and accountable for the complete, timely, reliable, and accurate preparation of the company's financial statements,

in accordance with the accounting standards and policies of the company, and for presenting the board with a balanced and understandable assessment of the company's financial position.
- *Corporate secretary*: The duties shall include arranging, recording, and following up on the actions, decisions, and meeting of the board and of the shareholders in books to be kept for that purpose.
- *Internal auditor*: The duties shall include providing an independent and objective review of the efficiency of the company's operations. This would include a review of the accuracy and reliability of the company's accounting records and financial reports as well as a review of the adequacy and effectiveness of the company's risk management, control, and governance process.

The board is also responsible for ensuring the continued operations of the business in case the key person(s) becomes unavailable. The board should get closely involved in the succession planning process to identify, define, and train suitable backup personnel in case the primary person(s) becomes unavailable. Both short-term and long-term succession plans should be considered. At least annually the board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills, and planned career paths for possible successors to the CEO. The board of directors should also assign goals and targets for the senior management, including the CEO. These should be aligned with the business strategy and should be challenging yet realistic. The Chairman of the board should review performance of the CEO against the predefined targets. The board is also responsible to maintain relationship with the shareholders of the company.

Corporate Secretary

Corporate Secretary or Board Secretary is the term used to define a senior level officer in an organization who is tasked with coordinating all aspects of board functions. Corporate secretary is a person who is given general responsibility for reviewing the company's procedures and advising the board directly on such matters. We recommend that, whenever practical, the Corporate Secretary should be a person with legal or similar professional experience and training. As discussed above, the duties of corporate secretary include arranging, recording, and following up on the actions, decisions, and meeting of the board and of the shareholders.

The Corporate Secretary should keep open and continuous channels with all members of the board and should provide any information requested by the board member in timely fashion. The Corporate Secretary is also responsible for ensuring that all directors have filled out relevant conflict of interest, code of conduct, and other documents; regulators have approved the appointment of new directors or have approved renewal of terms for existing directors; etc. For these tasks, the

Table 9.2 Tasks and responsibilities of a Corporate Secretary (Hussain, 2011)

Corporate governance implementation	Advising board and Chairman on applicable corporate governance rules and regulations
	Assisting the board in creating and implementing corporate governance process across organization
	Updating the board on the implementation of corporate governance processes
	Monitoring compliance with corporate governance policy and updating board/corporate governance committee
Appointment and training of directors	Assisting the board and Chairman in appointment process and ensuring smooth administration of appointment formalities
	Assisting Chairman of the board in conducting orientation training for new directors
	Ensuring availability of required information as and when requested by directors to effectively discharge their responsibilities
Board secretarial functions	Organizing board meeting, preparing and sending agenda and other meeting papers to members, writing minutes of meeting, and maintaining meeting records
	Arranging and organizing shareholder meeting (Annual General Meeting) and extra-ordinary general meeting; keeping minutes of the same, and following up on actions/decisions approved by the board
	Advising the board and Chairman on any possible violations of rules and regulations

Corporate Secretary works in close coordination with the Nomination and Remuneration Committees of the board of directors. Due to the importance of this role in overall functioning of the board, we advise that the appointment and removal of the Corporate Secretary should be a matter for the board as a whole, not for the CEO or any other officer. Table 9.2 summarizes the important tasks and responsibilities of a Corporate Secretary.

Audit Committee

> "*Allow yourself to think only those thoughts that match your principles and can bear the bright light of day. Day by day*, *your choices*, *your thoughts*, *your actions fashion the person you become. Your integrity determines your destiny*."
>
> —Heraclitus

As discussed earlier, the board of directors is the apex authority which is ultimately responsible to manage the affairs of the company. However, to enable board to perform its duties more effectively, several committees should be formed each looking after specific set of functions and areas. This enables the board to focus on multiple areas at the same time. This and the next sections discuss the roles of three committees, namely, Audit Committee, Remuneration Committee, and Nomination Committee. It should, however, be noted that the board may delegate but not abdicate its responsibilities to the committees. The Audit Committee is fundamental to the concept of implementing sound corporate governance in an organization. It is an integral part of the entire corporate governance model and greatly assists boards in fulfilling the fiduciary responsibility of due diligence and care.

Duties and Responsibilities of Audit Committee

The duties assigned to an Audit Committee vary, but a typical audit committee is responsible to perform most of the following duties:

a. *Oversee Financial Reporting*
   The Audit Committee should be responsible for reviewing the company's accounting and financial practices, reviewing the integrity of financial and internal controls and financial statements. The committee should:

   - Review earnings releases and financial reports.
   - Assess the appropriateness of management's selection of accounting policies and disclosures in compliance with approved accounting standards.
   - Ensure timely submission of financial statements by management.
   - Review significant or unusual transactions and accounting estimates, including related party transactions.
   - Review and understand management's representations.
   - Assess whether the financial report presents a true and fair view of the company's financial position and performance and complies with regulatory requirements.
   - Review and discuss possible improprieties in financial reporting or other matters and ensure that arrangements are in place for independent investigation and follow-up regarding such matters.

b. *Supervise External and Internal Auditors*
   We recommend that the Audit Committee should have a close relationship with both external and internal auditors of the company and should periodically evaluate their performance. The external auditor is responsible for auditing the financial statements, while the internal auditor's responsibility is evaluating the risk management, control, and governance processes. Specific duties of an audit committee in this regard include the following:

   - The Audit Committee should be responsible for the selection, appointment, remuneration, oversight, and termination where appropriate of the external auditor, subject to ratification by the company's board and shareholders.
   - The external auditor should report directly to the committee.

- The Audit Committee should also be responsible for making a determination, at least once a year, of the external auditor's independence, including:
  - Determining whether its performance of any non-audit services has compromised its independence.
  - Obtaining from the outside auditor a written report listing any relationships between the outside auditor and the company or with any other person or entity that may compromise the auditor's independence.
  - Monitoring the rotation arrangements for audit engagement partners.
- The Audit Committee should review and discuss with the external auditor the scope and results of audit, any difficulties encountered including any restrictions on its access to requested information, and any disagreements or difficulties encountered with management.
- The Audit Committee should review and discuss with management and the external auditor each annual and each quarterly financial statements of the company including judgments made in connection with the financial statements.
- The Audit Committee should review and discuss and make recommendations regarding the selection, appointment, and termination where appropriate of the head of internal audit and the budget allocated to the internal audit and compliance function and monitor the responsiveness of management to the committee's recommendations and findings.
- The Audit Committee should also review and discuss the adequacy of (and the need to make changes in) the company's internal auditing personnel and procedures, internal controls and compliance procedures, and risk management systems and procedures.
- Audit committee should oversee the company's compliance with legal and regulatory requirements.

c. *Assess Risk and Control Environment*
Many times, and especially if there is no dedicated committee for risk management, boards request their audit committees to oversee the process of risk management and internal control implementation in company. If delegated to do so, Audit Committees should determine whether management has implemented appropriate policies and procedures to identify, assess, and measure risks in all areas of business and whether adequate controls have been implemented to mitigate those risks. The internal control framework should be capable to address the following components as defined by Committee of Sponsoring Organization (COSO):

- *Control environment*: this sets the tone of the company. It is the foundation of all aspects of internal control, providing discipline and structure. It includes the integrity, ethical values, and competency of the personnel.
- *Risk assessment*: identifies and analyzes relevant risks that prevent the company from achieving its objectives and forms the basis for determining how those risks should be managed.

- *Control activities*: these are the policies and procedures that help ensure that the necessary actions are taken to address risks impeding the achievement of the company's objectives.
- *Information*: must be identified, captured, and communicated in a form and timeframe that enables personnel to carry out their responsibilities.
- *Monitoring*: assesses the performance of the control system on a continuing basis.

d. *Other Responsibilities*
An Audit Committee is also responsible to:

- Determine whether and how the company addresses conflict of interest situations and monitors compliance with related party transactions policy and/or mandate, including transactions or situations that warrant timely internal and regulatory disclosures and appropriate review and reporting.
- Review and supervise implementation of, enforcement of, and adherence to the company's code of conduct.
- Oversee the compliance with legal and regulatory requirements, codes, and business practices and ensure that the company communicates with shareholders and relevant stakeholders (internal and external) openly and promptly and with substance of compliance prevailing over form.
- Review and discuss arrangements for a "whistle-blower" program and ensure that arrangements are in place for independent investigation and follow-up regarding such matters.
- The information needs of the board to perform its monitoring responsibilities must be defined in writing and regularly monitored by the Audit Committee.

Rights and Authorities of the Audit Committee

The Audit Committee should have the right to seek any information it requires from employees, all of whom should be directed to cooperate with the committee's requests. The committee should also be authorized to invite any employee in committee meetings to discuss any matter deemed appropriate. Each member of the audit committee should have the right to unrestricted access to all corporate records, transactions, systems, procedures, and other information and should be entitled to ask for further information if so required to make an informed decision on any matter. Each member of the board should have access to independent legal or professional advice at company's expense whenever they judge this necessary to discharge their responsibilities. The same should be applicable to the Audit Committee members. The committee members should be authorized to retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.

Size of the Audit Committee

The size of an Audit Committee varies and depends upon the needs of the company and the extent of responsibilities delegated to the committee. However, at the least, an Audit Committee should be composed of at least three members, most of which should be non-executive and independent, and the Chairman must be independent. The size should be consistent with the responsibilities assigned to the Audit Committee and the size of the company. We advise the establishment of an Audit Committee composed of members with the right skill sets to perform assigned tasks but should not be overburdened which would affect their effectiveness. In addition, the members of Audit Committees should not have any conflict of interest with any other duties they may perform for the company.

Composition of the Audit Committee

Since primary responsibilities of Audit Committees is to oversee company's financial and internal control systems, it is recommended that the committee should be composed of members who are skilled and competent in financial matters. We recommend that a majority of the Audit Committee members should have financial literacy qualifications. In addition to being financially literate, the members of an Audit Committee should be able to identify and evaluate risks, should have sufficient knowledge of designing and implementation of internal control environment, and should have clear understanding of the roles of internal and external auditors. The Audit Committee does not have to be fully comprised of members of the board. If the board lacks necessary financial literacy, the board may choose to appoint non-board members (experts) in the Audit Committee. Some of the personal characteristics the board should look for while appointing an audit committee include:

- The ability to act independently and be proactively in advising the board of any concerns
- The ability to ask relevant questions, evaluate the responses, and continue to probe for information until completely satisfied with the feedback provided
- An ability and desire to constantly engage in self-development programs
- Receptiveness to new ideas and tolerance for unconventional views
- Ability to appreciate the company's culture and values and a determination to uphold these company's values coupled with a thoughtful approach to the ethical issues that may be faced
- A professional approach to duties, including an appropriate commitment of time and effort
- The courage to take and stand by tough decisions

- Encouragement of openness and transparency which is demonstrated by the ability to accept mistakes and not to ascribe blame

The characteristics of an effective Audit Committee include the following:

- Conducts its own affairs efficiently and responsibly and reviews its own performance annually
- Ensures effective communication among those involved with the audit committee
- Understands the company's risks and the control systems aimed at addressing those risks
- Drives for complete and accurate financial and nonfinancial information disclosures that reflect substance over form which can be issued on a timely basis
- Conducts meetings independently and separately from time to time with internal and external auditors
- Varies the duration of time spent for meetings, as needed, in order to meet changing and often increasing demands
- Actively engages in the appointment, replacement, or reappointment of the external auditor
- Has a strong and candid relationship with the external auditors
- Evaluates and assesses the performance of external auditors, including the latter's independence
- Determines the scope and fee of the external audit and ensures that the audit is comprehensive
- Determines the internal audit plan and adequacy of the internal audit scope, functions, and resources and that the internal audit function has the necessary authority to carry out its work
- Uses internal audit to review the way management manages business risks as well as how the risks are managed to enhance shareholder value
- Evaluates the performance of the internal audit function, including having an external review periodically to assess the competency of the function
- Ensures management is responsive to internal and external audit recommendations

Terms of Reference of the Audit Committee

The Audit Committee should adopt a written charter which shall, at a minimum, state the purpose, membership, responsibilities, structure, authority, and performance evaluation processes of the committee.

Appendix 6 shows a sample charter of the audit committee.

Chairman of the Audit Committee

The board must appoint one member of the Audit Committee as Chairman of the Audit Committee. A strong chair demonstrating depth of skills and capabilities is a key element for a successful committee, and so its selection should be undertaken with due care and consideration. The Audit Committee Chairman should assume, among others, the following responsibilities:

- Planning and conducting meetings
- Overseeing reporting to the board
- Encouraging open discussion during meetings
- Developing and maintaining an active ongoing dialogue with senior management and both the internal and external auditors

Audit Committee Meetings

- *Frequency*: Best practices recommend that Audit Committees should meet at least four times a year with preferably one meeting per quarter. A meeting of the Audit Committee should be held upon direction by the chairman of the committee but can also be scheduled if requested by external auditors or the head of internal audit.
- *Agenda*: Each meeting should have a defined agenda approved by the Chairman of Audit Committee. This would help the committee members to stay focused during the meeting. Where necessary, the agenda should include input from the CEO, Finance Director, and the internal and/or external auditors.
- *Meeting papers*: As a matter of good practice, the committee members should be provided with a meeting agenda and relevant papers at least a week in advance of the meeting. This will allow the members to thoroughly review all pieces of information prior to the meeting, enabling them to effectively discuss each agenda item during the meeting. Appendix 7 suggests key items which should be on agenda for audit committee meetings in different quarters.
- *Participants*: Depending on agenda matters, Audit Committee members may decide to meet in privacy without presence of any other person or may invite guests like the internal auditor, external auditor, company's Chief Financial Officer, Chief Executive Officer, Chief Operating Officer, Chief Risk Officer, or others as deemed necessary. Appendix 8 lists some issues that should be raised and discussed with executive management, external and internal auditors.
- *Duration*: Sufficient time should be allocated to Audit Committee meetings so that each agenda item can be discussed in adequate detail.
- *Report to board/shareholders*: Details of the Audit Committee's activities, number of audit meetings held in a year and attendance of each individual director in respect of the meetings should be disclosed in company's annual report. This enables shareholders to evaluate the commitment of a particular director. In addi-

tion, in each board meeting, the Chairman of the Audit Committee should brief board members on significant items discussed in the Audit Committee meeting.
- *Minutes of meeting*: All proceedings of Audit Committee meetings should be recorded in form of minutes of the meeting. An Audit Committee secretary should be appointed to record all matters discussed in the meeting. The minutes of the Audit Committee meetings are considered legal documents and should be retained for as long as the applicable regulatory bodies require.

Audit Committee Secretary

The Audit Committee secretary plays an important role in organizing Audit Committee meetings and providing assistance to committee members with regard to their queries on organization matters. Typical set of responsibilities perform by Audit Committee secretary include the following:

- Ensure meetings are arranged and held accordingly.
- Assist the Chairman in planning the Audit Committee's activities.
- Draw up meeting agendas in consultation with the Audit Committee Chairman, maintain the minutes, and draft its scheduled activities for the financial year.
- Ensure structured communication channels between the board and the Audit Committee.
- Ensure proceedings of meetings are recorded and the minutes are circulated to and confirmed by the Audit Committee Chairman before disseminating them to the board.
- Ensure Audit Committee recommendations presented to the board are supported by papers, including minutes that explain the rationale for the committee's recommendations.

Evaluation of the Audit Committee's Performance

At least annually, the board should conduct an evaluation of its performance and the performance of each committee and each individual director. The Audit Committee, in conjunction with the board, should develop a formal and rigorous assessment process. This may include interviews with the member being assessed, self-assessment, and/or peer assessment of members against preset criteria. Performance should be reviewed by evaluating each member's work, his/her attendance in committee meetings, discussions, and constructive involvement in decision making. Assessment can be performed by the committee itself (through a self-assessment questionnaire) or can be undertaken by any other committee of the board. Appendix 9 provides a sample self-assessment sheet for reviewing performance of audit committee.

Nominating Committee

> "*Keep true, never be ashamed of doing right, decide on what you think is right and stick to it.*"
>
> —George Eliot

The human element represented by the directors and senior executives is mostly the major cause of financial failures. Various researches and studies have shown that the improper selection of directors and executive management of a company largely contributes to the problems that these companies face. Researchers have also concluded that the structure of any board of directors in terms of the quality and competency of its members and the mix of executive, non-executive and independent directors have considerable impact upon the success or failure of a company. Thus, the corporate governance codes around the world strongly advocate a formal mechanism of selecting board and executive management members and their performance review. A company must have rigorous procedures for the appointment, training, and evaluation of the board. Boards may delegate the responsibility to a nominating committee to provide in-depth assistance in matters related to board level recruitment and performance assessment. This allows the board to focus on strategic and operational matters. The key task of the nominating committee is to ensure that a company hires and retains the best available executives and non-executive directors. In many cases, a nominating committee is tasked by the board to identify suitable candidates for key management positions.

Duties and Responsibilities of the Nominating Committee

Nominating committees are usually responsible to perform the following duties:

- Establish skills, qualification, and experience required of the board members.
- Identify persons qualified to become members of the board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary, and any other officers of the company considered appropriate by the board. This excludes the appointment of internal auditor which is the responsibility of audit committee.
- Make recommendations to the whole board of directors including recommendations of candidate for board membership. The recommendations should be included by the board on agenda for the next annual shareholders' meeting.
- Oversee the arrangement of induction and re-election of board members.
- Review board structure and its composition and develop a succession plan for board members and the executive management.
- Assist with the training of directors.
- Evaluate, on a regular basis, the performance of directors and communicate the outcome to the board and make recommendations for improvement.

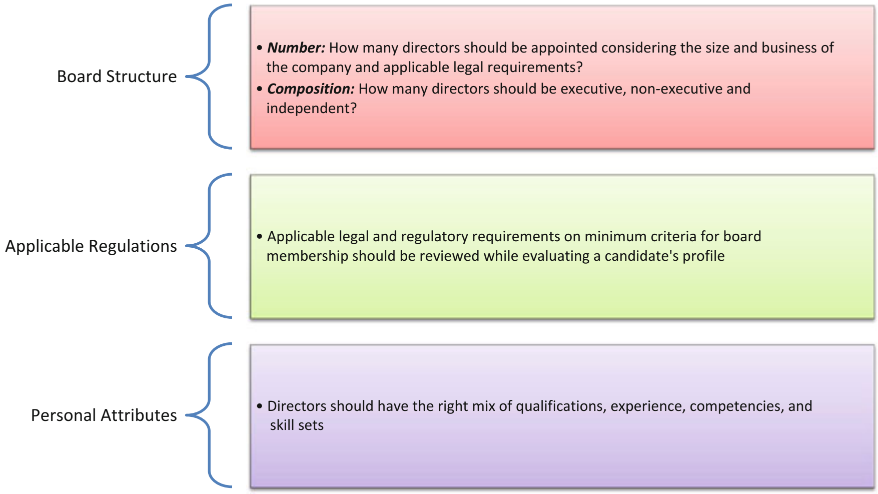

Fig. 9.5 Main factors for appointment of directors and company's senior management (Hussain, 2011)

- The Nominating Committee may also be charged with the responsibility to oversee the company's corporate governance guidelines. If so, the Committee should develop and recommend to the board corporate governance guidelines of the company and should review those guidelines at least once a year.

Appointment of Directors

Appointment of directors and company's senior management is an extremely important process since the quality and competencies of these officers go a long way in determining the effectiveness of the board and company. Three main factors should be assessed while a person is reviewed for candidature as director of the board and member of senior management team; see Fig. 9.5.

Proposing Suitability of Candidate

The Nominating Committee should oversee the development of formal job descriptions for each director of the board, Chief Executive Officer and other senior management members. Once a person is identified as suitable candidate to serve on the board of directors, a formal proposal should be created to accompany with the nomination. The election or re-election of directors is approved by shareholders during the Annual General Meeting. Each proposal by the board to the shareholders for election or re-election of a director should be accompanied by a recommendation from the board, a summary of the advice of the Nominating Committee, and the following specific information:

- The term to be served, which may not exceed 3 years (but there is no limit on re-election for further terms unless required by applicable law)
- Biographical details and professional qualifications
- In the case of an independent director, a statement that the board has determined that the criteria for independence have been met
- Any other directorships held
- Particulars of other positions which involve significant time commitments
- Details of relationships between the candidate and the company and between candidate and other directors of the company

We recommend that the Chairman of the Board should confirm to shareholders when proposing the re-election of a director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond 6 years for a director should be subject to particularly rigorous review and should take into account the need for progressive refreshing of the board. Serving for more than 6 years is relevant to the determination of a non-executive director's independence.

Training and Development of Directors

We recommend that directors should not only be provided orientation training at the time of taking office but should also be offered continuous professional development opportunities to remain up to date. The Chairman of the Board shall ensure that each new director receives a formal and tailored induction to ensure his/her contribution to the board from the beginning of his/her term. He/She must get an introduction training, which among other things include:

- Meetings with senior management
- Visits to company facilities
- Presentations regarding strategic plans
- Significant financial, accounting, and risk management issues
- Compliance programs
- Meetings with internal and independent auditors and legal counsel

All continuing directors should be invited to attend orientation meetings and all directors should continually educate themselves about the company's business and corporate governance. Management, in consultation with the Chairman of the Board, should hold programs and presentations to directors related to the company's business and industry, which may include periodic attendance at conferences and management meetings. The Nominating Committee should oversee directors' corporate governance educational activities.

Evaluation of Board, Committees, and Directors

The Nominating Committee is responsible for arranging or performing an annual assessment of the board, its committees, and each director. There are two methods commonly used to perform such assessments. These include qualitative surveys (self-assessment questionnaires with both closed and open ended questions) and facilitated interviews (similar to qualitative surveys but not conducted by a director himself/herself). The Nominating Committee can conduct the evaluation itself or can seek assistance from an external third party. Yet another method to perform the evaluation is the peer review technique in which directors are requested to evaluate performances of one another. The board collectively should decide which method of evaluation should be adopted. However, the important consideration here is to ensure that assessment is performed on an annual basis. The evaluation process should include:

- Assessing how the board operates
- Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee
- Reviewing each director's work, his/her attendance at board and committee meetings, and his/her constructive involvement in discussions and decision-making
- Reviewing the board's current composition against its desired composition with a determination to maintain an appropriate balance of skills and experience with a view towards a planned and progressive refreshing of the board

In addition the following criteria may be used while evaluating board members:

- Whether a director understands company's mission and objectives
- Whether a director understands the business of the company
- Director's knowledge, expertise, and the willingness to continuously keep himself/herself updated with the latest information about company's line of business
- Director's ability to ask probing questions and interrogate management when required
- Comparison of directors' performance against the preestablished key performance indicators

Appendix 10 provides sample evaluation sheets for boards, board committees, and individual directors.

Corporate Succession Planning

In addition to the responsibilities of identifying, nominating, training, and evaluating the performance of directors of the board, the Nominating Committee is also responsible for ensuring that the company has a well-established, clear, and efficient management structure and that succession plans are in place for each critical position in the company. This includes both the directors of the board and senior management level employees:

a. *Succession Planning for Directors of the Boar*
   Board members are seen as a vital source of leadership. Therefore, it is essential to clearly define a succession plan for board members. This can be achieved by doing the following:

   - Draw up a clear succession policy involving all the board members. The company must have a plan to deal with instances of members' resignation, death or retirement.
   - Develop and upgrade members' skills through periodic training and introduce a thorough performance evaluation process as mentioned earlier in this chapter. This would assist in identifying a gap in the required skills and performances of the directors which will help in drafting the succession plan.
   - Coordinate succession plans between the shareholders and the Board Chairman either directly or through an outside consultant.

b. *Succession Planning for Senior Executive Management*
   The job of the Chief Executive Officer, General Manager, and heads of departments and affiliates are all posts that require definite plans for succession as such positions are vital for the ongoing life of the company. If no succession schemes are in place, any position that becomes vacant can cause considerable disruption to the running of the business. Therefore, it is imperative that the board of directors makes sure that there are comprehensive plans for dealing with replacement of personnel in senior executive roles. In order for such plans to be effective, the following must be taken into account:

   - The Board of Directors or its nominating committee should coordinate with the Chief Executive Officer to establish the corporate succession plans and policies and the method of implementing them.
   - The training and development programs associated with the succession schemes should be reviewed and upgraded constantly to ensure their suitability to the company's requirements and in accordance with agreed strategies.
   - The executive management should submit periodic reports at least every quarter or upon convening any board meeting.
   - The company's shareholders should consider the implementation of such schemes as part of the evaluation of the board's performance with rewards based partially upon their implementation.

Size, Composition, and Meetings of the Nominating Committee

We recommend that the nominating committee should consist of at least three members one of whom should be elected as Chairman of the committee. The committee should meet at least twice a year. Its meetings may be scheduled in conjunction with regularly scheduled meetings of the entire board. The nominating committee should have the resources and authority necessary to perform its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees of outside legal, consulting, or search firms used to identify candidates, without seeking the approval of the board or management. The company should provide appropriate funding for the compensation of any such persons. The nominating committee should preview and review with the board an annual performance evaluation of the committee either written or in form of an oral report at any board meeting.

Appendix 11 provides a sample charter and terms of reference of the Nominating Committee.

Remuneration Committee

> "*Your reputation and integrity are everything. Follow through on what you say you' re going to do. Your credibility can only be built over time*, *and it is built from the history of your words and actions*."
>
> —Maria Razumich-Zec

Benefits and compensation are certainly some of the most significant factors that greatly affect any company and can even decide its future success or failure. Such benefits include the remuneration and allowances paid to the directors, senior executives, and perhaps all members of the company's staff. Remuneration and benefits policies help motivate directors, senior executive management, and employees to carry out their duties efficiently. It's important to remunerate directors and officers fairly and responsibly.

The compensation and benefits structure of board members and senior management has always been a topic of controversy throughout the world. This is because, on the one hand, executive management desires high compensation while, on the other hand, shareholders concerned with getting the maximum return on their investments seek to minimize the compensation-related expenses. This is where the role of the Remuneration Committee comes into play which is tasked with ensuring that structure and level of remuneration package is high enough to attract and retain the optimal quality of employees and directors but at the same time ensure that excessive remuneration packages are avoided.

Thus, it is important for the Remuneration Committee to ensure that fair compensations are offered to all executive directors, CEOs, and other senior management persons in the company in line with their individual contributions and the overall performance of the company.

Duties and Responsibilities of the Remuneration Committee

We recommend that the Remuneration Committee should perform following duties:

- Review the company's remuneration policies for the board of directors and senior management, which should be approved by the shareholders.
- Make recommendations regarding remuneration policies and amounts for specific persons to the whole board, taking account of total remuneration, including salaries, fees, expenses, and employee benefits.
- Remunerate board members based on their attendance and performance.

In line with the above main duties, a detailed set of responsibilities of the Remuneration Committee is suggested by experts. Accordingly, a Remuneration Committee should:

- Review and recommend all the terms of compensation and benefits, policies, and regulations for the board directors and senior executives.
- Coordinate and consult with the Board Chairman concerning the remuneration and benefits for each executive director.
- Seek and obtain information from the competition and the market on the prevailing compensation packages and wage scales to ensure benchmarking to market standards.
- Review and approve company policies for staff benefits, performance awards, and other remuneration and allowances.
- Review and approve regulations concerning personnel/human resource policies which deal with recruitment, resignations, and termination of the services of senior executives and the rest of the company's staff.
- Review and approve the senior management's remuneration and retirement schemes.
- Review and approve compensation policies for non-executive board members.

Developing Remuneration Framework

The Remuneration Committee should take ownership of developing a formal framework of compensation and benefits for directors (executive and non-executive), the Chief Executive Officer, executive management, and the line management of the company. The Remuneration Committee must ensure that the remuneration and compensation framework is robust and effective in the following areas:

- Attracting and retaining key personnel to enhance productivity and profitability in the long run

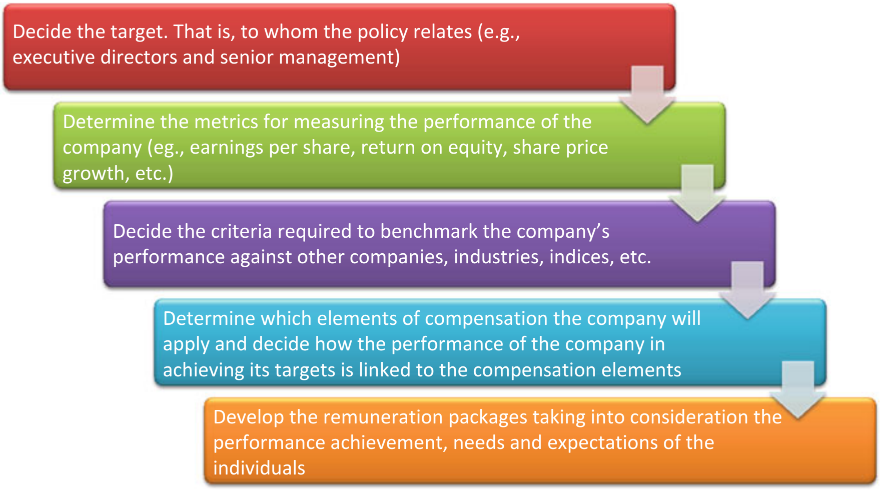

Fig. 9.6 Steps remuneration framework (Hussain, 2011)

- Motivating by creating incentives for directors and employees to perform at their best
- Focusing attention of achievement of the desired goals and company's objectives

Figure 9.6 shows the steps in establishing a remuneration framework.

Executive Directors' Remuneration

We provide the following guidelines for setting remuneration packages for executive directors:

- The remuneration packages for executive directors should be developed such that a portion of the total remuneration is linked with company and individual performance.
- The percentage of the fixed and variable remuneration varies with the level of responsibility, complexity of the role, and market practices in a company's external environment. However, the executive remuneration should be set at a competitive level for similar roles within comparable markets to recruit and retain high quality senior executives.
- Individual pay levels should reflect the performance of the director, skills, and experience as well as responsibility undertaken.

The Remuneration Committee must ensure that the linkages between performance and pay are robust and market based. The committee should also determine whether the criteria and incentive schemes are genuinely challenging and should update the criteria accordingly.

Non-executive Directors' Remuneration

The remuneration packages for non-executive directors should not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits. The determination of remuneration packages for non-executive directors should be a matter for the board as a whole. The individual concerned should abstain from discussion of their own remuneration. We provide the following guidelines for setting remuneration packages for non-executive directors:

- Non-executive directors should be remunerated in the form of fees that is approved by shareholders on an annual basis.
- Fees for non-executive directors should take into account the market trends and board fees for similar companies and competitors and an assessment of time commitment required from each non-executive director.
- Any other activities undertaken by non-executive directors should also be considered, for example, chairmanship of the board or any of its committees. In case a director serves on any board committee, additional fees should be added to total compensation.

Officers' Remuneration

We provide the following guidelines for setting remuneration packages for CEO and other senior executives:

- The remuneration packages for CEO and other senior executives should be structured such that a portion of the total remuneration is linked with company and individual performance and aligns their interest with the interests of the shareholders.
- Performance-based rewards may include grants of shares, share options and other deferred stock-related incentive schemes, bonuses, and pension benefits which are not based on salary.
- If an officer is also a director, his/her remuneration as an officer should take into account compensation received in his/her capacity as a director.
- All share incentive plans should be approved by the shareholders.

We also recommend that all performance-based incentives should be awarded under written objective performance standards which must have been approved by the board and should be designed to enhance shareholder and company value, under which shares should not vest and options should not be exercisable within less than 2 years of the date of award of the incentive. We also recommend that all plans for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the grant to specific individuals of benefits under the plan.

Size, Composition, and Meetings of the Remuneration Committee

We recommend that the Remuneration Committee should consist of at least three members, one of whom should be elected as Chairman of the committee. The committee should meet at least twice a year. Its meetings may be scheduled in conjunction with regularly scheduled meetings of the entire board. The remuneration committee should have the resources and authority necessary to perform its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees of outside legal, consulting, or search firms used to identify candidates, without seeking the approval of the board or management. The company should provide appropriate funding for the compensation of any such persons. The Remunerations Committee should preview and review with the board an annual performance evaluation of the committee either in writing or in the form of an oral report, at any board meeting. Appendix 9 provides a sample charter and terms of reference of the Remuneration Committee.

Shareholders

> "*We've got to put a lot of money into changing behavior.*"
>
> —Bill Gates

Shareholders are the owners of a company and as such should be treated with due respect. We recommend that the Chairman of the Board (and other directors as appropriate) should maintain continuing personal contact with major shareholders to solicit their views and understand their concerns. The Chairman should ensure that the views of shareholders are communicated to the board as a whole. The Chairman should discuss governance and strategy with major shareholders. The board must encourage investors, particularly institutional investors, to help in evaluating the company's corporate governance practices. It must also communicate with shareholders, encourage their participation, and respect their rights.

Shareholder Relations

We provide the following guidelines for maintaining a healthy relationship with shareholders:

- All shareholders of the same type, class, and series must be treated equally.
- Within any type, series, or class, all shares must carry the same rights. All investors should be able to obtain information about the rights attached to all types,

series, or classes of shares before they purchase them. Any changes in voting rights must be subject to approval by those shareholders which are negatively affected.
- Minority shareholders must be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and must have effective means of redress.
- The Board and Corporate Secretary must encourage the attendance of shareholders at all shareholder meetings in order for shareholders to exercise their right to vote at such meetings.
- Where shareholders are unable to attend, CMSPs must make provision for such shareholders to vote by proxy, subject that such a proxy is revocable and provides for two-way voting item by item (yes/no) and where proxies are provided to board members or senior management and that such proxy shall not exceed 5 % of the eligible votes.
- Votes must be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
- Impediments to cross border voting must be eliminated.
- Processes and procedures for general meetings must allow for equitable treatment of all shareholders. Company procedures must not make it unduly difficult or expensive to cast votes.

Shareholders' Rights

The corporate governance framework of a company should protect and facilitate the exercise of shareholders' rights. Basic shareholders rights include:

- Secure methods of ownership registration
- The transfer of shares
- Obtaining relevant and material information on the corporation on a timely and regular basis
- Participating and voting in general shareholder meetings
- Electing and removing members of the board
- Sharing in the profits of the corporation
- Presentations by independent advisers
- Participating in corporate events

Shareholders must also have the right to participate in and to be sufficiently informed on decisions concerning fundamental corporate changes, such as:

- Amendments to the statutes or articles of incorporation or similar governing documents of the company
- The authorization and approval of additional or new shares or securities
- Extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company

Conduct of Shareholders' Meetings

Perhaps the most obvious way of communicating with shareholders is through the annual shareholder meeting or annual general assembly. It is advisable that the board observe both the letter and the intent of the commercial company's legal requirements for shareholder meetings, among other things:

- Notices of meetings must be honest, accurate, and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting.
- Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- Notices of meetings must encourage shareholders to attend shareholder meetings and, if it is not possible, to participate by proxy and refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as "yes," "no," or "abstain").
- Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of directors.
- The board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together.
- In meetings where directors are to be elected or removed, the board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually.
- The Chairman of the meeting must encourage questions from shareholders, including questions regarding the company's corporate governance guidelines.
- The minutes of the meeting must be made available to shareholders upon their request as soon as possible, but not later than 30 days after the meeting.
- Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.
- Disclosure must be made of the attendance of the board of directors at board meetings, as well as committee meetings, on an individual basis, including the outcome and any decisions taken at such meetings, together with any objections or reservations raised item by item.
- As shareholder meetings are public meetings, the board and senior management must permit, on request, for members of the media to attend and report on shareholder meetings of the company.
- Any commercial material or notices to stakeholders shall also be provided to shareholders, particularly in relation to topics to be discussed at annual general meetings.

In notices of meetings at which directors are to be elected or removed, the companies should ensure that:

- Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes.
- The notice of the meeting should fairly represent the views of candidates.

Attendance of Directors and External Auditor at Shareholders' Meeting

The company should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, to ensure that the chairs of the audit, remuneration, and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility. The company should also require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.

Maintenance of Corporate Web Site as a Tool for Communicating with Shareholders

A company should dedicate a specific section of its Web site to describing shareholders' rights to participate and vote at each shareholders meeting and should post significant documents relating to meetings, including the full text of notices and minutes. The company may also consider establishing an electronic means for shareholders' communications, including the appointment of proxies. For confidential information, the company should grant controlled access to such information to its shareholders.

Controlling Shareholders

In companies with one or more controlling shareholders, the Chairman and other directors must actively encourage the controlling shareholders to make considered use of their position and to fully respect the rights of minority shareholders.

Disclosures to Shareholders

Based on the principles of transparency and open communication, we recommend that:

- In each company, the board should adopt written corporate governance guidelines covering all corporate governance matters deemed appropriate by the board.
- At each annual shareholder's meeting, the board should report on the company's compliance with its guidelines and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified.
- Companies should publish their corporate governance guidelines on their Web site and should also place all corporate governance reports on their Web sites.

Appendix 13 lists the detailed disclosure requirements of the code in annual reports.

Corporate Governance Committee

We recommend establishing a Corporate Governance Committee to develop, review, and update company's corporate governance policies. The board must establish this Corporate Governance Committee consisting of at least three independent members, which must be responsible for developing and recommending changes from time to time in the company's corporate governance policy framework. The Corporate Governance Committee can either be established separately or be merged with any other committee (such as the Audit Committee or the Nominating Committee) depending upon the size of the company and nature of its business. Appendix 14 provides a sample charter of the Corporate Governance Committee.

Code of Conduct and Ethics

> "*Good people do not need laws to tell them to act responsibly*, *while bad people will find a way around the laws*."
>
> —Plato

A formal and documented code of conduct communicates a company's commitment to a high degree of ethical standards and states acceptable and unacceptable behavior. It is advisable that the principles of the code of conduct should be clearly defined and articulated. Figure 9.7 shows the ingredients of a code of conduct. The code of conduct can be organized either according to a division of insiders and outsiders associated with the daily operations of the company or through a formulation of principles and statements relating to the company. Appendix 15 provides a sample code of conduct stating set of rules and principles.

While implementing the code of conduct, employees should be made aware of all the provisions of the code and should be briefed about the importance of complying with the code's provisions. Every employee should receive a copy of the code of conduct and should be required to acknowledge its receipt and understanding. The company's Compliance Officer should monitor the implementation of the code of conduct and should perform reasonable and periodic audits to confirm compliance. Employees should be informed that serious violations of the code may lead to disciplinary actions against them. The code of conduct should be approved by the board and should be reviewed and updated at least once a year.

Conflict of Interest

Each director and officer should understand that under the company law, he/she is personally accountable to the company and the shareholders if he/she violates his/her legal duty of loyalty to the company and that he can be personally sued by the

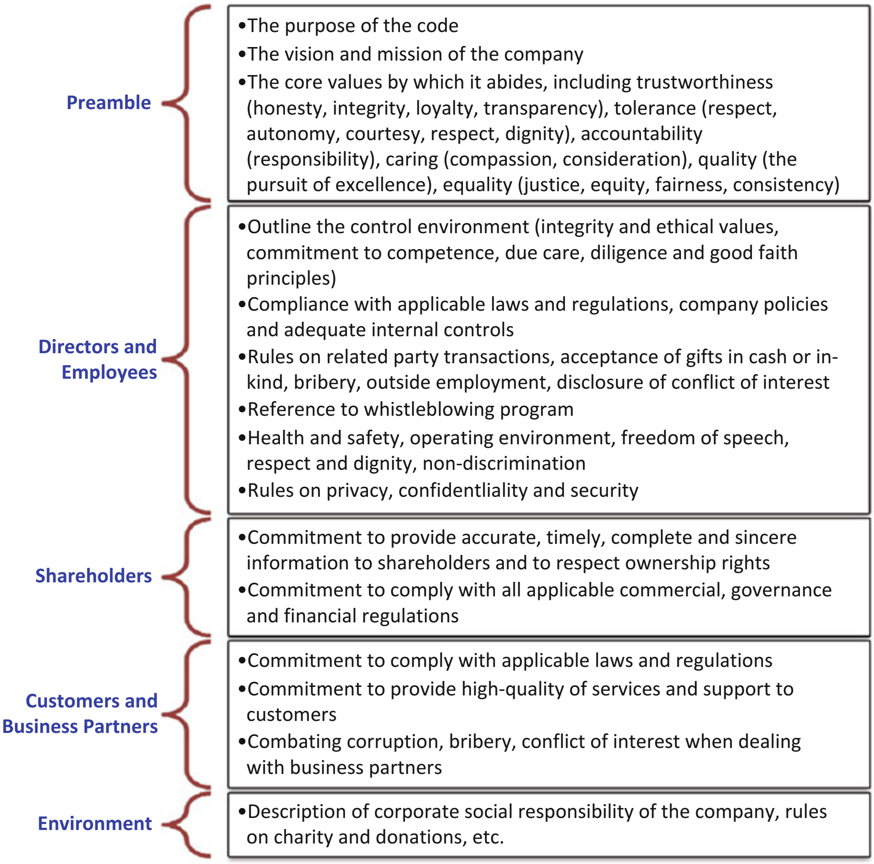

Fig. 9.7 Ingredients of a code of conduct (Hussain, 2011)

company or the shareholders for such violations. Each director and officer should make every practicable effort to arrange his/her personal and business affairs to avoid a conflict of interest with the company. Each director and officer must therefore inform the entire board when conflicts of interest arise and abstain from voting on the matter in accordance with the relevant provisions of the company law.

Best practices recommend that an organization should establish a formal policy on conflict of interest. The policy should define the instances where conflict of interest may arise. The policy should also require each director to disclose his/her actual and potential conflicts of interest and should not vote in any matters/ transactions in which he/she has a personal interest. In addition, all cases of abstention from voting due to a conflict of interest should be disclosed in the annual report to shareholders. A sample conflict of interest policy for the board is included in Appendix 16. Appendix 17 provides a sample of the Statement of Ethics which should be signed by each director.

Whistle-Blowing Program

Establishing a whistle-blowing program is an important element of overall corporate governance framework. It cannot be disputed that the first people to realize or suspect wrongdoing are usually those who work with or within the organization. The whistle-blowing program provides a framework under which any person having information or knowledge of a violation to company's policies or interest can come forward and report without any fear. It also strengthens the company's commitment to openness, practicing high standards of ethical conduct, integrity, and determination to enforce appropriate controls.

We provide the following suggestions on how to establish and implement a whistle-blowing program:

- The company should evaluate which malpractices should be included in the whistle-blowing program. Some examples may include corruption, financial irregularity or fraud, discrimination, harassment, abuse of power, damage to company property, regulatory noncompliance, any criminal offense, unethical practices/lack of due care/violation of the company's code of conduct, etc.
- It should be noted that whistle-blowing program should not cover any issue arising out of a personal employment situation or any issue arising out of mismanagement.
- The whistle-blowing policy should be applicable to all persons working within the organization including board members, senior management, middle and line management, permanent, contractual, and part-time employees.
- The whistle-blowing policy, although should encourage people to report wrongdoings, should not fall the victim to satisfying personal conflicts among employees. Thus, certain preconditions should be defined before a complaint is seriously pursued.
- In order to protect the whistle-blower, it is recommended that the whistle-blowing program should allow for anonymous reports if the person does not want to be named. This would give confidence to insiders that they can freely disclose their allegations without fear of retaliation.
- The technical means for receiving the report/complaint should be well defined. A mechanism of whistle-blower hotline is usually set up where a person can call a specific telephone number to report a wrongdoing. However, other means like emails or postal mails should be evaluated.
- Organizations should identify a proper recipient of the information. This could either be an Ethical Representative, Compliance Officer, Internal Auditor, a member of the board of directors, or some external party. The Chairman of Audit Committee and the Chairman of the Board should be kept informed of the allegations and results of investigation.

- The company may adopt a policy to reward the whistle-blower if investigations proved the wrongdoing. However, the complainant should not be held accountable if the investigations do not reveal an actual wrongdoing unless the complaint was made in bad faith.

Appendix 18 provides a sample of the whistle-blowing policy.

In the next Chapter we will focus on the "best fit" between employee and organization in order to create a strong foundation for sustainable corporate governance.

Chapter 10
Alignment with Your Organization

"Religion is to do right. It is to love, it is to serve, it is to think, it is to be humble."

—Ralph Waldo Emerson

Clarity and uniformity of personal and organizational values and principles are essential for creating an ethical culture within the organization and for developing a stable basis for sustainable corporate governance. The final step in the authentic governance model deals with this issue. It entails aligning and synchronizing the employee's personal ambition with the corporate's ambition, for the purposes of employee engagement and creating a challenged and happy workforce. It is about alignment with your organization; see Fig. 10.1. This chapter focuses on a related alignment process, according to Hubert Rampersad's authentic personal branding methodology (Rampersad, 2009, 2010).

This alignment process is needed because staff members do not work with devotion or expend energy on something they do not believe in or agree with. If there is an effective match between their interests and those of the company or if their values and the company's values align, they will be engaged and will work with greater commitment and dedication towards realizing the company's objectives. Identification with the corporate ambition is the most important motive for them to dedicate themselves actively to the company objectives and to maximize their potential. When your personal ambition is in harmony with your company's (are compatible) and combined in the best interest of both parties, the results will be higher productivity and sustainable corporate governance. Doing work related to your personal ambition and personal balanced scorecard that is interesting and exciting and provides learning opportunities has become a key personal driver. The emphasis here lies in intrinsic motivation. Intrinsic motivation is inherently pleasurable and it arises from within; most people do something because they enjoy doing it and love it. People work harder and more ethically when they perceive that they are treated as human beings and when they do interesting and challenging work.

H. Rampersad and S. Hussain, *Authentic Governance: Aligning Personal Governance with Corporate Governance*, Management for Professionals,
DOI 10.1007/978-3-319-03113-2_10,

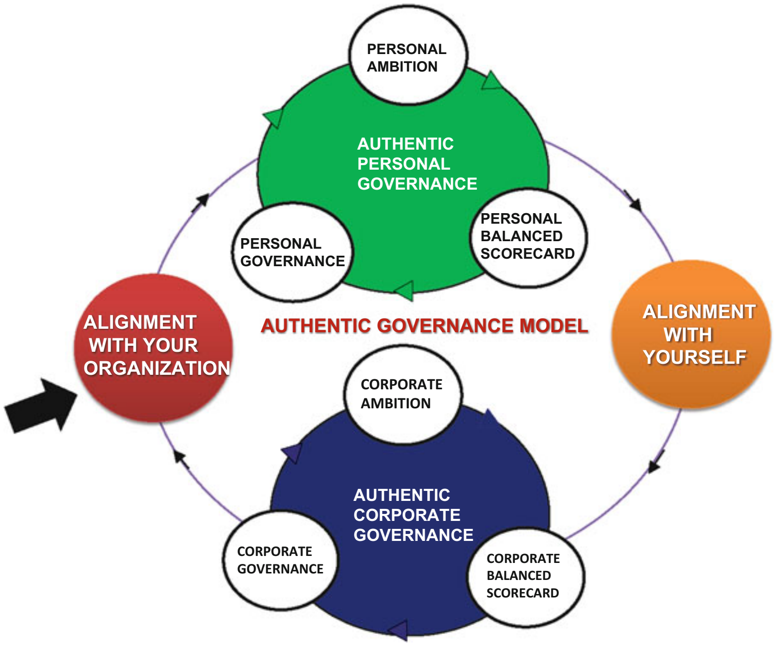

Fig. 10.1 Fourth stage in the authentic governance model

Table 10.1 Reasons to stay or to leave the organization (Rampersad, 2010)

Reasons to stay	Reasons to leave
1. Interesting position with a lot of variation	1. Little or no challenges
2. New challenges	2. Uninteresting job
3. Job security	3. Low income
4. More money	4. Little chance for promotion
5. Favorable business	5. Unpleasant colleagues
6. Promotion and career opportunities	6. Too much pressure at work
7. Sympathetic help with personal problems	7. Little or no salary perspectives
8. Pleasant colleagues	8. Leader who does not stimulate
9. Income perspectives	9. Unfavorable business
10. Opportunities to follow training	10. Very little freedom

Table 10.1 shows that money is not the main reason why people are staying or leaving the company. So money should not be the glue to keep your employees in the company. You should focus on developing a climate of trust, engagement, learning, and authentic governance. The solution for this has been provided in this and the previous chapters.

It has become essential to get the optimal fit and balance between the personal ambition and the corporate ambition in order to enhance labor productivity and to stimulate integrity, engagement, commitment, love, and passion in the company.

This has to do with reaching a higher degree of compatibility between personal and organizational objectives and mutual value addition. People do not work with devotion or expend energy on something they do not believe in or agree with. Clarity and uniformity of personal and organizational values and principles are therefore essential for the active involvement of employees and working ethically. Research has shown that when an individual has some input regarding the shared ambition that affects his or her work, the person will be more supportive, motivated, and receptive towards organizational change. Workers are often willing to work together towards the goals of the organization with dedication when there is a match between their personal ambition and the corporate ambition. All people have different personal values and principles that we must try to understand and link to the company's values.

A study by Towers Perrin (2005) found that while many people are keen to contribute more at work, the behavior of their managers and the culture of their organizations are actively discouraging them from doing so. It shows that there is a vast reserve of untapped "*employee performance potential*" that could drive better financial results if only companies could tap into this reserve. Remember what Peter Drucker said: "*So much of what we call management consists in making it difficult for people to work*." Research shows that poor leadership and no alignment with corporate goals are the two main causes of disengagement; see below text box. This box also shows the disastrous consequences of poor leadership.

Top Ten Causes of Disengagement (Rampersad, 2010)

1. Poor leadership/bad boss
2. No alignment with corporate goals
3. Not a good fit for the position they were hired for
4. Lack of trust in company manager
5. Bad relationship with manager
6. Unchallenging work environment with little or no opportunities for professional growth
7. Lack of respect
8. Lack of energizing staff
9. Lack of training to help grow their career
10. Not being recognized by the manager for their achievements

Consequences of Poor Leadership

- Poor leadership is costing an average company about 7 % of its annual revenue. That is over a million dollars a year for any organization with $15 million dollars or more in annual sales.
- Poor leadership leads to poor employee productivity. Productivity can be improved 5–12 % through effective leadership.

(continued)

(continued)

- Poor leadership is responsible for up to 30 % of the reasons why people leave their organizations.
- Poor leadership negatively impacts employee satisfaction, which in turn negatively impacts customer satisfaction and retention. Research published in Harvard Business Review calculated that every five-point change in employee satisfaction scores caused a 1.3-point change in customer satisfaction scores.
- Poor leadership is the most important cause of bankruptcy and financial failures.

The corporate governance codes around the world strongly advocate a formal mechanism of selecting board and executive management members and their performance review. As we have seen in the previous chapters, this is not the solution for sustainable corporate governance and creating an ethical business culture. The real solution for this problem is provided in this book, namely, the chairman/president/CEO/CFO/managers must be trained in developing their personal ambition (Chap. 3) and personal balanced scorecard (Chap. 4), after this they must be coached according to the PDAC cycle to become an effective leader and a role model (Chap. 5), after this they need to be coached to become a better human being according to the "alignment with yourself" process (Chap. 6), and finally they must align themselves with their company (Chap. 10).

Increasingly, successful companies are beginning to recognize that good relationships with their employees are more important than good relationships with their customers; employees should be happy first in order to make the customers happy. Company loyalty starts with the employee's happiness, with the linkage between the employee's ambition and the employer's ambition. You should put both ambitions side by side to check if there are similarities or not, as shown in Fig. 10.2. Both do not have to match exactly, but they should align in key places, such as the ambition statement.

Aligning personal ambition with the corporate ambition has an impact on the organizational bonding of the employees. The alignment of the employee's ambition with the company's ambition energizes them and gives them the proud feeling that they count (that they are being paid attention), that they are appreciated as human beings, and that they make a useful and valuable contribution to the organization. Employees are stimulated in this way to act ethically and to commit and focus on those activities that create value for clients. This will create a strong foundation of integrity and stability upon which creativity and growth can flourish and life within the company will become a more harmonious and ethical experience. The alignment of the personal ambition with the corporate ambition has to do with reaching a high degree of compatibility between authentic personal governance and authentic corporate governance, as shown in Fig. 10.3. This has an important impact

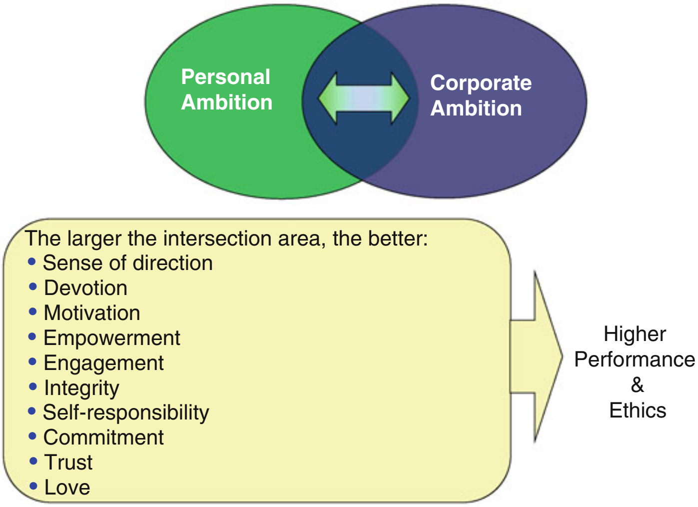

Fig. 10.2 Matching the personal ambition with the corporate ambition (Rampersad, 2009)

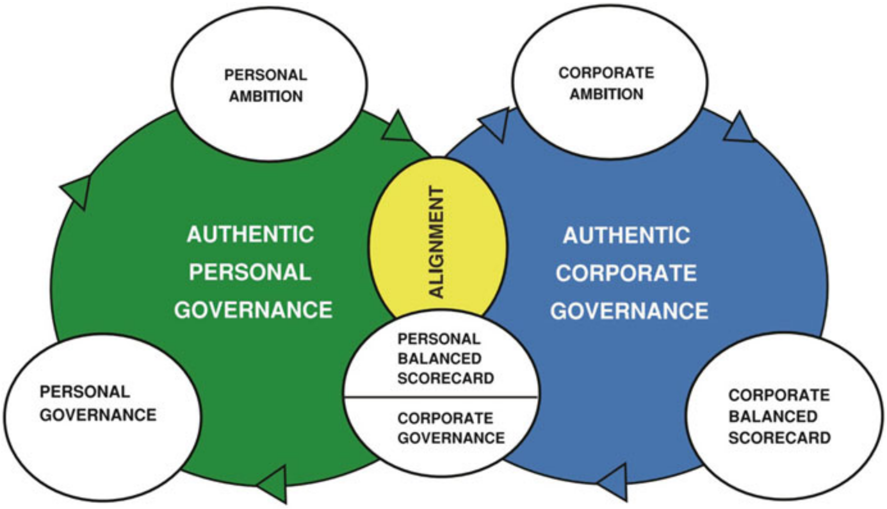

Fig. 10.3 Compatibility between authentic personal governance and authentic corporate governance

on employee engagement and corporate governance. In the next sections, we will first discuss the importance of employee engagement, before focusing in detail on the alignment process.

Employee disengagement is a global epidemic. According to the latest Gallup poll information:

- 61 % of the British workforce, 67 % of the Japanese workforce, and a whopping 82 % of the workforce in Singapore is not engaged.

- Disengaged employees cost Singapore $4.9 billion; the country's workforce ranks among the lowest in the world in employee engagement.
- 20 % of Australian workers are actively disengaged at work, and this costs the economy an estimated $31.5 billion per year; the survey of 1,500 Australian workers found that only 18 % are engaged at work and thus providing their employers with high levels of productivity, profitability, and customer service.
- The percentage of engaged employees in organizations is less than 20 % in Europe.
- The highest recorded levels of engaged employees are in Brazil (31 %) and Mexico (40 %). The lowest recorded levels are in Asia.

Furthermore, a recent Conference Board study showed that 53 % of American workers are unhappy in their jobs. In seven countries (UK, USA, Sweden, Netherlands, India, Hong Kong, and Australia), SHL, the world leader in providing psychometric assessment techniques, asked hundreds of managers how much time they spend managing "poor performers." In its 2004 research study, it was found that the cost of bad performance by employees was as much as US$ 32 billion in the UK. New research shows that poor performance of disengaged employees can actually "infect" their co-workers and put a drag on an entire company's morale. Sirota Survey Intelligence (Salary.Com Research, May 2006) found that many managers fail to realize the tremendous impact that the poor performance of a few employees has on the entire company's operations. Out of 34,330 employees polled for this study, 33 % of managers and 43 % of nonmanagement employees think their companies are not addressing poor performers in an appropriate manner. This has a tremendous negative impact on motivation and productivity, says David Sirota. "*It has to do with employees being frustrated by co-workers. It's indicative of management that's really not managing. People want management to care about performance. If somebody's not working, it's a real detriment to everyone's performance*." Consequently, when companies do address poor performance, employee engagement and productivity increase. According to Sirota research (Salary.Com Research), nearly three-quarters (73 %) of employees who think their company is doing a good job of addressing poor performers identify themselves as "favorably engaged" at work. To take advantage of all these findings, companies need to make lagging employees understand that performance is taken seriously, match their ambition/brand with the company's ambition/brand, and let them go if they do not improve with coaching.

Matching the personal ambition with the corporate ambition has to do with reaching a higher degree of compatibility between personal and company objectives and mutual value addition (as shown in Fig. 10.2). A study, by CO2 Partners (2007), found that 30 % of US workers' values mismatch with the company:

- One in three US workers said their employer's core values are not consistent with their own.
- 44 % said their values were consistent.
- 11 % said they were uncertain about their own core values but never uncomfortable working for their employer.
- 10 % said they did not feel their core values had much connection to the work they do.

Another study, by Towers Perrin (2005), found that instead of matching the right employee to the right position for long-term success, most US companies and HR departments put the emphasis on simply filling the position as quickly as possible. As a result, American businesses are losing money as fast as they are losing employees.

How to Create Employee Engagement

It is recommended to encourage the Chairman, President, CEO, CFO, managers, and employees to formulate their personal ambition and to let them reflect about the balance between their own personal ambition and the corporate ambition. Rampersad, therefore, recommends an *ambition meeting* within companies between the Chairman/President/CEO/CFO/line-manager and his/her employees and board members (Rampersad, 2003, 2009). The ambition meeting is a periodical, informal, voluntary, and confidential meeting of a maximum duration of 1 h between the executive/manager and his/her employees, with the employee's personal ambition and balanced scorecard and the corporate ambition and balanced scorecard as topics.

Why informal? Because they will learn more from informal than from formal meetings. It is recommended that the meeting is held structurally at least once every 2 months, preferably more often. The outcome of these informal meetings should be highly confidential and should be kept out of the personnel file and not be used against the employee. The Chairman/President/CEO/CFO/line-manager plays a crucial role in worker well-being, integrity, and engagement. He/she should act as a trusted person, coach, and role model in this process. Why as a trusted person? Because if there is distrust and fear, there will be no sharing and learning. To be able to talk about the employee's personal ambition/BSC, one needs a confidential, informal, and friendly atmosphere, an atmosphere of trust and open communication. This is essential as human values will be discussed. Experience has shown that this intimate atmosphere can be reached if the Chairman/President/CEO/CFO/line-manager formulates his/her own personal ambition/BSC beforehand and shares it with his/her employee/board members. The implementation of the employee's personal ambition/BSC comes up for discussion and includes private matters, as well as work-related aspects. At least those private matters that have an impact on job performance can be discussed confidentially. During the alignment process, the Chairman/President/CEO/CFO/line-manager should act as a trusted and informal coach and provide social support to the employees by being a good listener, providing help, and being someone the employee can rely on. The Chairman/President/CEO/CFO/line-manager should be trained as discussed earlier, in order to act as an effective coach.

The ambition meeting will help you clarify if your personal ambition and those of your company are in harmony and where they are in conflict. It determines how closely your employer's ambition aligns with your ambition. The Chairman/President/

CEO/CFO/line-manager can make a selection of the following ambition questions, which he/she can use during the ambition meeting with you (Rampersad, 2003, 2009):

- Does your personal ambition correspond with the corporate ambition?
- Can you identify yourself with the corporate ambition? In doing this, do you feel personally involved and addressed by the corporate ambition? Is your personal ambition to be found in the corporate ambition? If not, do they have to be expanded or adjusted? Are they acceptable? How can they flourish within the organization?
- Is it possible that your personal ambition level or that of the company should be lowered?
- Does your personal ambition match the corporate ambition? Where do they align and where do they contradict each other? Do they conflict? Are there compatibilities? Are there linkages?
- Are your most important personal values done justice here? Which points in your personal ambition are strengthened and which are in conflict with the corporate ambition? Which ones are neglected?
- Is there a win-win situation between your own interests and the ones of your company?
- What makes you feel good at work?
- Are you proud of working for the company?
- Whose life is improved because of your work?
- Which skills do you need to be a pillar of the organization and thus realize the corporate ambition? What do you want to gain through this?
- Are your developmental expectations in tune with those of the company?
- Do your job requirements match your capabilities and needs?
- How is the implementation of your personal ambition/BSC going? Did you reach your target? Could it be better? Where did it go wrong? What have you learned? What did you unlearn?
- What motivates you? What demotivates you? What makes you happy or sad? What do you enjoy the most?
- What contribution are you trying to make to the realization of our corporate ambition? Which job do you aspire to? What are your wishes? What do you strive for? What are your concerns?
- Do you have ethical problems on the job? Have you considered a job change because of this?

Miller, Catt, and Carlson (1996) introduce a personal way to deal with ethical problems on the job (when your manager asked you to do something unethical):

- Make sure there is a conflict. Make sure both you and your manager have all the facts. Check the contract to see if the activity is permitted.
- Decide how much you are willing to risk. Do a cost-benefit analysis. Look at everyone involved, and ask yourself what the harm and benefit is to each group.
- Make your move. If the unethical action is important enough for you to take a risk, tell your manager you cannot do it. Do not make accusations to your manager. Let him or her save face.

- If there is trouble, get help. If your manager says you have to do it anyway and you feel that you cannot, then you should go to some influential person in the company. Try not to go directly above your manager.
- Consider a job change. If the people you turn to for help do not have a problem with the situation, then perhaps you need to quit. Evaluate your manager's personal ambition and the shared organizational ambition. If they conflict with yours, then leaving may be the best answer.

Do not expect a perfect match or alignment, but the more alignment the better. You should decide, based on the results of this alignment process, to stay and struggle or to leave. If your ambition does not align at all with the company's ambition, and if it probably never will, finding another job where there is a better fit is the best option. Some people in our network decided to look for another job after they discovered that their ambition did not align with their employer's ambition. It prevented stress and burnout. Sometimes this can be the best option for both yourself and the company.

The alignment process also has an important impact on the level of stress and burnout at work. The International Labor Organization (ILO) defines organizational stress as "*Harmful physical and emotional responses that occur when the job requirements do not match the capabilities*, *resources or needs of the workers*." Burnout is a physical, mental, and emotional response to constant levels of high stress. It produces feelings of hopelessness, powerlessness, cynicism, resentment, and failure—as well as stagnation and reduced labor productivity. Research shows that when employees have tense or strained relationships with their manager or colleagues, this could increase their levels of stress. Organizations that understand the connections between worker stress and health and well-being can help their employees to manage stress and find balance in their work and personal lives. When they do, productivity and engagement improve (*Gallup Management Journal*, 2005).

As shown in Chap. 4, the personal balanced scorecard is an excellent tool for finding balance in your work and personal lives in order to reduce stress and burnout. The impact of stress and burnout is severe. According to the National Institute for Occupational Safety and Health (1983):

- Stress is linked to physical and mental health and decreased willingness to take on new and creative endeavors.
- Job burnout is experienced by 25–40 % of US workers.
- Stress has a major negative impact on productivity.
- Depression, only one type of stress reaction, is responsible for more days lost than any other single factor.
- $300 billion, or $7,500.00 per employee, is spent annually in the US on stress-related compensation claims, reduced productivity, absenteeism, health insurance claims, and direct medical expenses (nearly 50 % higher for workers who report stress symptoms).

The discussed alignment process will help you to reduce organizational stress and burnout. This happens in concordance with the introduced breathing and silence exercise (Chap. 3). This exercise will give you energy and have a restful effect on you to produce a calm state of mind free from stress. Public health scientists at University College London have found that a happy state of mind can lead to a healthier heart and lower levels of stress-inducing chemicals. They have found that people who have more moments of happiness over a day produce less harmful chemicals such as cortisol and so are likely to be healthier in the long run and less likely to suffer from heart disease. Some executives and managers, instead of creating happiness, create distrust and fear within the organization. They have an enormously destructive impact on the health of their people and their company and true learning is not stimulated in an atmosphere of distrust and fear.

Research shows that more than half of all employees in Europe have changed jobs or organizations at least once because of their Chairman/President/CEO/CFO/manager's bad behavior, in other words mismanagement is the reason for their poor performance on the job. You will drive out fear from your company by introducing the ambition meeting between the manager and his/her employees. In this way, the manager will give employees the feeling that they count for something and that they are appreciated as human beings. Consequently they will create a firm foundation of peace and trust upon which creativity and growth can flourish. Trust is the most important ingredient in this process. Ralph Waldo Emerson said: "*Trust men and they will be true to you*; *treat them greatly and they will show themselves great*." According to Simon Dolan (2007): "*When others trust us and give us freedom to act*, *our self-esteem improves and we tend to become more productive. This is the basis for empowerment… People with appropriate self-esteem experience themselves better*, *they are and feel alive*, *they are more willing to go beyond themselves and take care of others. They establish certain interpersonal bonds easily*, *they don't feel alone*, *they manage their lives with ease and are relaxed towards their own destiny*, *towards their own happiness*."

The discussed alignment process is an opportunity to create warmth, pleasure, passion, heartfelt commitment, self-direction within companies, and motivation, which is often missed. Management has two general options of rewards regarding motivation: extrinsic (such as salary, money) and intrinsic (e.g., recognition, appreciation, and praise). Intrinsic motivation is that which is inherently pleasurable, while extrinsic motivation is not. Intrinsic motivators are those that arise from within (doing something because you enjoy it), while extrinsic motivators mean people are seeking a reward, such as money. Money has lost its impact on employee's motivation, as it is a short-term incentive (see Table 10.1). Therefore, organizations must reward employees intrinsically, too. A climate of learning, challenges, enjoyment, happiness, trust, creativity, self-actualization, self-development, esteem, and inner involvement is often more important to employees than salary. Mihaly Csikszentmihalyi (1990) did large-scale research in the USA about the dissatisfaction of employees. It was established that American employees named three important reasons why they were dissatisfied with their job. These reasons had to do with the quality of the experience on the job, and not with salary and other material interests. The first and most important reason was about the lack of variations and challenges (dull and senseless). The second reason was related to conflicts with other people at work, in particular with bosses. The conflict is often because of someone's defensive attitude, which results from fear of failure. The third reason has to do with exhaustion (especially in managers): too busy, too much stress, too much tension, too little time for themselves, insufficient balance between work and life, and family problems.

Stimulating employees and making a job more enjoyable are the changes managers have to make in order to attract and engage workers whose fundamental views about work have been shifting radically over the past 10 years. The solution for this is formulating your personal ambition and personal BSC, creating work-life balance with this, implementing these according to the PDAC cycle, and aligning yourself with the company. On the basis of this, you will also be able to set priorities and effectively manage your spare time in a more structured fashion so that you can enjoy optimum experiences and new challenges at home. This will also help with your hobbies, which require specific skills, behaviors, and inner discipline.

Robert Park, the prominent American sociologist said 60 years ago, "*I suspect that the biggest waste of American life flows from the squandering of our spare time*." Relevant to this are some important statements made by Mihaly Csikszentmihalyi: "*Together we squander the equivalent of millions of years of human consciousness. The energy which can be used for concentration on complex objectives, personal growth and feeling well, is being dissipated on incentives which do not do more than imitate reality… Work and spare time can also provide for our needs. People, who learn to enjoy their work, and use their spare time the right way, often have the idea that their lives have become more valuable. The future is not only for the learned person, but also for the person who has learned to use his spare time effectively*."

Valuable energy is wasted in spending time on activities that are of no value and on daydreaming. There are many important and fun things to do in life. The challenge is to respect time, so that we can achieve a fuller, more satisfying life. According to Robin Sharma: "*True happiness comes from only one thing: achievement of goals, whether they are personal, professional or otherwise. You are happiest when you feel you are growing. When you feel that you are contributing and advancing in the direction of your dreams, you will notice that you have boundless energy and vitality. Time spent on activities which offer little reward aside from a fleeting feeling of relaxation (television watching is the best example), is time lost forever. Relaxation is essential but choose the most effective means of renewal and spend your time in productive pursuits that will slowly move you along the path of accomplishment. Happiness comes from doing—not sleeping*." Also remember what Charles Darwin said: "*Anyone who dares to waste 1 h of life has not discovered the value of life*."

Many of the abovementioned spare time activities are often not challenging and do not result in an optimum flow experience, because challenges and skills needed for these are not always on a high level. Chances to be happier, more joyful, more creative, and more satisfied and to stimulate personal growth in your spare time are often missed in pursuit of these activities. Therefore, it is recommended that you systematically apply the introduced personal balanced scorecard method not only at your workplace but also in your spare time and with your family. You will then be able to realize your family objectives and to breathe more life into your relationships with your spouse and children. Hence, assist your family members in formulating their personal ambition and related personal BSC, let them share this among themselves, and stimulate them to perform the breathing and silence exercise. You will thus create conditions so that you can enjoy life with your family and be happy together. Work-life balance is also an important issue that employers must offer in order to retain and develop talent. Many companies in North America and Europe have been successful in allowing employees to schedule their own shifts, allowing them to be able to meet family commitments. Research shows that one of the reasons why partners broke up was that they spent too much time on their careers. People want more time for themselves and their kids now. According to US Census figures, the average male is stated to have worked 43.5 h a week in 1970 and 43.1 h a week in 2000, and the average female 37.1 h in 1970 and 37.0 h in 2000. See Chap. 4 how the personal BSC method will help you create a stable basis for work-life balance. It will also help you to set priorities in your life and manage yourself and your time effectively.

It was proven through Mihaly Csikszentmihalyi's research that the average American devotes 10 % of working hours on irrelevant matters, such as daydreaming and gossiping with colleagues. In some cases, this even goes as high as 25 % of work time. A more recent study, by America On-line and Salary.com, found that the average US worker wastes more than 2 h a day and that is not including lunch. This means companies spend as much as $759 billion USD on salaries annually for which they receive no apparent benefit. Americans who feel bored and underpaid do work hard—at surfing the Internet and catching up on gossip—according to a recent survey of Salary.com (2007). This survey found US workers waste about 20 % of their working day. The online survey of 2,057 employees by the online compensation company found about six in every ten workers admit to wasting time at work with the average employee wasting 1.7 h of a typical 8.5 h working day. "*While a certain amount of wasted time is built into company salary structures*, *our research indicates that companies with a challenged and engaged workforce can expect more productivity in return*," said Bill Coleman, Chief Compensation Officer at Salary. com.

To take advantage of all these findings, executives should introduce the ambition meeting and should help their employees to improve the quality of their life, not only at the workplace but also in their spare time on the basis of the methods and techniques presented here. Following such practices would encourage employees to continuously act ethically, feel free and safe, and able to accept bigger challenges and, through this, provide enjoyment in work and experience well-being and happiness. This attitude will also have its effect on customers and shareholders, improving their quality of life and adding to their well-being and satisfaction. It is therefore critical that managers realize that their employees' home situation (healthy or not) has an impact on their work performance. This can no longer be ignored, in the interests of the health and happiness of employees.

Epilogue

> *"Do all the good you can, by all the means you can, in all the ways you can, in all the places you can, at all the times you can, to all the people you can, as long as ever you can."*
>
> —John Wesley

Large-scale accounting scandals caused by the unethical behavior of top executives, poor ethical leadership, mismanagement, fraud, corruption, and violating corporate governance rules have brought many large companies trouble. Against this background, many governments and large companies everywhere are currently very keen to revamp, develop, and implement a corporate governance code to address the abovementioned shortcomings. Unfortunately, all these efforts are not sustainable, have made things worse, and provide no protection from potentially catastrophic ethical failures, because of the focus on formal and exhaustive rules, regulations, guidelines, and procedures only.

In this book, we have introduced an organic, holistic, and authentic governance model which will help organizations to realize sustainable high corporate performance and ethical corporate excellence. This innovative corporate governance approach is combined with powerful tools to deliver peak performance and to create a stable basis of trustworthiness, credibility, and personal responsibility. This new governance blueprint places more emphasis on understanding yourself and the needs of others, meeting those needs while staying true to your personal and corporate values, improving yourself and your personal integrity continuously, making ethics a way of life and a continuous learning process, and aligning these with formal corporate regulations, procedures, and guidelines, instead of focusing on exhaustive formal corporate regulations, procedures, and guidelines only.

We believe that our breakthrough authentic governance method differs from traditional corporate governance concepts and that this book differs from other corporate governance books. It is up to you, the reader, to judge whether this is true. We gladly welcome any reactions and suggestions from you regarding this book.

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Please send your feedback by e-mail to h.rampersad@authenticgovernance.org and sh@shcbahrain.com. The development of this authentic governance concept and the writing of this book have been a continuing learning process for us. If you would like to keep track of the latest developments in this field, please visit our website. We are devoted to helping individuals and organizations to become successful, by providing integrated professional services (coaching, consulting, and training) based on our proven principles. The results are enduring high performance and ethical corporate excellence. For more information about our authentic governance membership and certification program and our AGI Chapter closest to you, please write to:

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Appendix 1
Sample Appointment Letter for Board Members

DIRECTOR'S SERVICES AGREEMENT

This Director's Services Agreement (hereinafter the "**Agreement**") is made on and entered into this ___ day of [month] [year], by and between:

1. [Company Name], a company incorporated under the laws of --------------, with a commercial registration no.--------- and having its address at --------------------- -- (hereinafter referred to as the "**Company**")

   AND

2. [Full Name], a [nationality] national, holder of passport number [#] (hereinafter referred to as the "**Director**").

   The Company and the Director shall hereinafter be jointly referred to as the "Parties" or individually as the "Party."

WHEREAS:

1. The Director has been elected as a director of the Company [for a term of three (3) years commencing on the Appointment Date/for the period _________ to _________ to complete the term of previous director who left office on _________]; and
2. The Company wishes to compensate the Director in consideration for his expected services as a member of the Company's board of directors (hereinafter the "Board").

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NOW IT IS HEREBY AGREED AND DECLARED by and between the Parties hereto as follows:

1. APPOINTMENT

1.1. The Director shall be appointed as an <state whether **independent**>, <state whether **nonexecutive**> **director** in the Company.
1.2. The Director's appointment shall commence on the [**date**] or when the Central Bank of [country name] (hereinafter the "**[abbreviation]**") formally approves his appointment by virtue of a written notice, whichever is later (hereinafter the "Appointment Date").
1.3. The Director's appointment shall be subject to the articles of association of the Company, as amended from time to time (hereinafter the "**Articles**"). Furthermore, nothing in this Agreement shall be taken to exclude or vary the terms of the Articles as they apply to the Director as a director in the Company's Board.
1.4. For the purpose of this Agreement, the Director is an independent contractor of the Company and shall not be deemed an employee of the Company for the purposes of any employee benefits the Company provides its employees.

2. DUTIES AND RESPONSIBILITIES

2.1. The Director shall have the same general legal responsibilities to the Company as any other director of the Board and shall be required to take decisions in the best interests of the Company.
2.2. The Director understands that the Board as a whole is collectively responsible for the success of the Company and that, given the nature, history, and structure of the Company, success, for the purposes of this article, is measured more widely than purely financial results and shall include, without limitation, stakeholder knowledge and satisfaction as well as financial stability as a key aim.
2.3. The Director shall ensure the Board fulfills its responsibilities to:

    2.3.1. Provide leadership for the Company within a framework of prudent and effective controls which enable the assessment and management of risk;
    2.3.2. Set the Company's strategic aims, ensure that necessary financial and human resources are in place for the Company to meet its objectives, and review management performance; and
    2.3.3. Set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

2.4. The Director shall also be required to:

2.4.1. Constructively challenge and contribute to the development of the Company strategy;
2.4.2. Scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
2.4.3. Satisfy himself that all financial information is accurate and that financial controls and systems of risk management are robust and defensible;
2.4.4. Be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing senior management as well as in Company succession planning;
2.4.5. Serve on any committee(s) of the Board as required from time to time and attend the meeting(s) of any such committee(s);
2.4.6. At all times comply with the articles and memorandum of association of the Company;
2.4.7. Abide by the fiduciary duties as a director of the Company;
2.4.8. Diligently perform his duties and use his best endeavors to promote, protect, develop, and extend the business of the Company;
2.4.9. Immediately report his own wrongdoing or the wrongdoing or proposed wrongdoing of any other employee or director of the Company of which he become aware to the chairman of the Company's Board of Directors (hereinafter the "Chairman"); and
2.4.10. Comply with any codes of practice and terms of business issued or adopted by the Company from time to time.

2.5. The Director shall be entitled to request all relevant information about the Company's affairs as is reasonably necessary in order to enable him to discharge his duties and obligations.
2.6. Subject to the prior notice to the Board, the Director may take independent professional advice at the Company's expense if he deems it necessary to discharge his responsibilities.

3. TIME COMMITMENT

3.1. The Director confirms by virtue of accepting this appointment that he is able to allocate sufficient time to meet all the expectations and requirements of his role.
3.2. The Director shall furnish as much time as required to discharge the Director's duties. Such time commitment shall include without limitation attendance at board meetings, strategy meetings, and shareholders meetings. In addition, the Director shall allocate suitable preparation time ahead of each meeting and shall be available to deal with matters on the Board's e-mail list as well as at other member or staff events, when required.

3.3. The Company will confirm the specific dates and times for board meetings in due course. The Director may expect to receive an agenda, together with relevant supporting documents, at least one (1) week prior to each board and/or committee meeting. However, from time to time, it may be necessary to hold such meetings at short notice.

4. FEES

4.1. The Director shall be paid an amount of (currency and amount)--------- per board meeting in which he participates except in the event the Director has been elected as Chairman of the board in which case he will be paid an amount of ________________________.

4.2. In the event that the Director has been appointed in a committee of the Board, he shall be paid an amount of ------------------------- for each committee meeting in which he participates.

4.3. The Company shall reimburse the Director for all reasonable and properly documented expenses that the Director incurs in performing the duties of his office.

4.4. All amounts referred in this Agreement are subject to change from time to time based on the recommendation and approval of the Nomination and Remuneration Committee of the Company.

5. ANNUAL REVIEW

The Director will be subject to an annual review process to be conducted by <the Chairman (or Nominating Committee or an external consultant as per the company's policy)>. If there are any matters regarding the Director's role that cause any concern in the interim, they should be discussed with the Chairman.

6. CONFLICTS OF INTEREST

6.1. The Director shall avoid all and any conflicts of interest involving any matter pending before the Board. A conflict of interest is deemed to exist when the Director is confronted with an issue in which the Director has a vested personal or pecuniary interest or an issue or circumstance that could render the Director unable to devote complete loyalty and singleness of purpose to the Company's sole interest.

6.2. The Director shall confirm to the Board any conflicts that are apparent at present as well as declare any potential future conflicts of interest as soon as they become apparent to him.

7. CONFIDENTIAL INFORMATION

7.1. During the course of the Agreement, the Director is likely to obtain knowledge of trade secrets and other confidential information with regard to the business and financial affairs of the Company and its parent company, subsidiaries of the parent company, associates, and affiliates (from time to time) and their respective customers and suppliers details of which are not in the public domain (hereinafter the "Confidential Information").

7.2. The Director agrees not to disclose, sell, use, or in any way transfer, either directly or indirectly, the Confidential Information to any legal or natural person for any purpose without the prior written consent of the Company except as may be required by law.

8. RETIREMENT AND TERMINATION

8.1. The continuation of this Agreement is contingent upon the continued satisfactory performance and re-election by the Company's shareholders as required by the Articles. If the Director has not been re-elected, this Agreement shall terminate automatically and with immediate effect.

8.2. The Director may terminate this Agreement at any time by giving three (3) months written notice to the Chairman.

8.3. The Company may terminate this Agreement with immediate effect if the Director has:

   8.3.1. Committed any serious or repeated breach or nonobservance of his obligations to the Company;

   8.3.2. Been found guilty of any fraud or dishonesty or acted in any manner which, in the opinion of the Company, brings or is likely to bring the Director or the Company into disrepute or is materially adverse to the interests of the Company;

   8.3.3. Been declared bankrupt or found guilty of committing a crime or a misdemeanor of a dishonest, dishonorable, or immoral nature; or

   8.3.4. Been disqualified from acting as a director of the Company by the CBB.

8.4. Upon termination of this Agreement, the Director shall only be entitled to accrued fees as at the date of termination, together with the reimbursement of any expenses properly incurred prior to that date.

9. INDEMNIFICATION AND INSURANCE

9.1. The Company currently maintains/will arrange (as the case may be) Directors' and Officers' liability insurance with an indemnity limit of ---.

9.2. The Company will arrange for the Director's name to be included in such cover with immediate effect.

10. GOVERNING LAW AND JURISDICTION

This Agreement shall be construed in accordance with and governed by the laws of the -------------------. All disputes which may arise between the Parties of this Agreement shall be resolved between the Parties amicably. However, failing such amicable settlement, the Parties hereby submit their disputes exclusively to ------------ for Dispute Resolution in accordance with its Arbitration Rules and their decision shall be final.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

SIGNED on behalf of
[COMPANY NAME]

…………………………..

SIGNED on behalf of
DIRECTOR

…………………………..

[Name]

Appendix 2
Sample Charter of the Board

Objective

The Board oversees the conduct of the corporation's business by management and review of the corporation's financial objectives and major corporate plans, strategies, and actions. The Board of Directors exercise leadership, enterprise, integrity, and judgment in directing the corporation, so as to promote the best interests of shareholders in terms of corporate governance, fiduciary responsibilities, compliance with applicable laws and regulations, and maintenance of accounting, financial, or other controls.

Authority

The Board of Directors is the ultimate decision-making body of the corporation except for matters reserved for the stockholders of the corporation. Consistent with the Board's power to delegate management of the day-to-day operation of the corporations business, the Board shall exercise business judgment in establishing and revising guidelines for authorization of expenditures or other corporate actions. In addition, directors shall have complete access to the corporation's senior management.

Communications/Reporting

The Board will establish appropriate committees such as an Audit, Finance, and Compensation Committees. These committees will report directly to the Board of Directors regarding committee activities, issues, and related recommendations. The

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charters of each committee will be reviewed periodically with a view to delegating committees with the authority of the board. Such authority will be set forth in board resolutions or by-laws pertaining to the charters of the board committees.

Responsibilities

The Board's specific responsibilities in carrying out its oversight role are delineated in the Board Authorization Charter Checklist. The responsibilities checklist will be updated annually to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. The most recently updated responsibilities checklist will be considered to be an addendum to this charter. The Board of Directors will provide continuity for the organization by setting up a corporation, and to represent the organization's point of view through the interpretation of its products and services, and advocacy for them. The Board will govern the organization by board policies and objectives, formulated and agreed upon by the Chief Executive Officer and employees. The Board will acquire sufficient resources for the organization's operations and to finance the products and services adequately. The Board will account to the public for the products and services of the organization and expenditures of its funds, including (1) to provide for fiscal accountability, approve the budget, and formulate policies related to contracts from public or private resources and (2) to accept responsibility for all conditions and policies attached to new, innovative, or experimental programs.

Board of Directors Authorization Charter Checklist

	When performed				
	Winter	Spring	Summer	Fall	A/N*
1. Determine/update the corporation's mission and purpose. The Board will determine the corporation's purpose and values, determine the strategy to achieve its purpose and to implement values					X
2. Ensure effective organizational planning. The Board should exercise leadership, enterprise, integrity, and judgment in directing the corporation so as to achieve continuing prosperity for the corporation					X
3. Determine and monitor the corporations programs and services. The Board will monitor and evaluate the implementation of strategies, policies, management performance criteria, and business plans	X	X	X	X	

(continued)

(continued)

		When performed				
		Winter	Spring	Summer	Fall	A/N*
4.	Approve annual objectives. The Board is responsible for approving the annual objectives of the corporation				X	
5.	Ensure that management has identified and prioritized the principal risks the company faces, indicate the likelihood that they will actually occur, and estimate their potential cost versus the cost of preventing them. The Board should meet with management on a regular basis to discuss and evaluate such risks					X
6.	Ensure that management has developed processes to identify major risks and has developed plans to deal with such risks. Such processes should be reviewed and approved by the Board. The Board should monitor the implementation of the risk-reducing processes and evaluate them on a regular basis					X
7.	Select the Chief Executive Officer of the corporation. The Board is responsible for the selection and where appropriate replacement of the Chief Executive Officer					X
8.	Support the executive and review his/her performance. The Board is responsible for evaluating the Chief Executive Officer and Chief Financial Officer on his/her performance	X	X	X	X	
9.	Review and approve key executive's compensation plan, including salary, bonuses, stock compensation, and fringe benefits. Additionally, review key executive's travel and entertainment expenses					X
10.	Approve 1-, 3-, and 5-year budgets					X
11.	Periodically review actual results versus budget and investigate unusual items					X
12.	Approve guidelines for authorization of expenditures established by management					X
13.	Approve major expenditures outside authorized budget. The board shall exercise business judgment in establishing and revising guidelines for the authorization of expenditures or other corporate actions and management will periodically review this					X

(continued)

(continued)

	When performed				
	Winter	Spring	Summer	Fall	A/N*
14. Review results of the Audit Committee, the Compensation Committee, and the Disclosure Committee periodically concerning matters specific to each committee	X		X		
15. In preparation for meetings of the Board and its committees, the Chairman will consult with the CEO regarding the agenda and content	X	X	X	X	
16. Directors will be alert to potential board candidates with appropriate skills and characteristics and communicate information regarding board selection matters to the appropriate committee					X
17. Review and update the Board of Directors Authorization Charter checklist annually				X	
18. Review policies and procedures with respect to transactions between the company and officers and directors, or affiliates of officers of directors, or affiliates of officers or directors, or transactions that are not a normal part of the corporations business					X

*As needed

Board of Directors Authority Matrix

The purpose of this document is to assist the board with visibility into key areas/transactions and perceived risks. The thresholds for the identified areas will depend upon unique characteristics of the organization being governed.

The matrix below is a recommended format to develop agreed upon Board of Directors (BOD) authority regarding specific attributes of corporate governance. In no way it is a complete list of responsibilities as the matrix represents a sample for guideline and discussion purposes. The BOD Authority Matrix should be determined with your Board and legal counsel and will vary widely based on the board members style, outside legal advice, and current company financial position/risk. The process will produce board visibility and absolute authority requirements. Consideration of board authority should be managed with a company's need to operate with agility within its current risk profile.

Board of Directors Authority Matrix

Category	Descriptions/examples	Scope/considerations
Operating obligations	**Reduction in force** [All non-performance-based force reductions—reductions >10 % of total work force] **Tax restructuring** [All proposed restructurings—restructurings which change effective tax rate by >3 %] **Significant vendors contracts** [Top 10—relationships >15 % of total operating/procurement expenditures] **Significant customer contracts** [Top 10—deals >10 % of revenue or negatively impact gross margin by 2 %, EPS change of 10 %] **Significant partner contracts** [EPS possible impact of 10 %]	$______MM, X% of EPS, X% of net income, X% of operating expenses
Executive compensation	**Key executive contracts, salary, bonuses, fringe benefits, stock-based compensation, reimbursable expenses** [All C level executives—key executives/directors determined by Board—review of compensation, benefits, and audit/summary of expenses annually]	CEO, CFO, CIO and COO
Related party	**Significant transactions with affiliated companies, executives, and executives' family members** [All related party transactions reported—related party transactions with key executives/directors/board members >$50k]	>$______MM
Investments	**Derivatives and hedging transactions, investment strategy and policy** [Investment policy updated annually, transactions with possible EPS impact of >10 % of projected operating/investment or below ROI limit/requirements]	> $______MM
Capital expenditures	**Significant system implementation, disposal, and acquisition of major PP&E (building and lease commitments)** [Expenditures/adjustments with impact >10 % of capital budget/plan—with possible EPS impact of >10 %]	>$_______MM
Mergers and acquisitions	**New product lines, new company acquisitions** [All new products and acquisitions—those that may impact EPS >10 %]	>$_______MM
Expenditures	**Payout for any single expenditure, regardless of the nature of the expenditure** [Single expenditure/extraordinary/other >10 % of operating expenditure budget/plan, which may impact EPS >10 %]	>$______MM or X% of EPS, X% of net income, X% of operating expenses

Appendix 3
Evaluating Enterprise Risk Management Framework

Some of the questions a Board should consider when evaluating a company's framework for enterprise risk management (ERM) include the following:

- What is the organization's risk management philosophy?
- Is that philosophy clearly understood by all personnel?
- What are the relationships among ERM, performance, and value?
- How is ERM integrated within organizational initiatives?
- What is the desired risk culture of the organization and at what point has its risk appetite been set?
- What strategic objectives have been set for the organization and what strategies have been or will be implemented to achieve those objectives?
- What related operational objectives have been set to add and preserve value?
- What internal and external factors and events might positively or negatively impact the organization's ability to implement its strategies and achieve its objectives?
- What is the organization's level of risk tolerance?
- Is the chosen risk response appropriate for and in line with the risk tolerance level?
- Are appropriate control activities (i.e., approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, segregation of duties, etc.) in place at every level throughout the organization?
- Is communication effective—from the top down, across, and from the bottom up of the organization?
- How effective is the process currently in place for exchanging information with external parties?
- What is the process for assessing the presence and performance quality of all eight ERM components over time?
- How are new products developed and what risks are involved?
- Credit risk—What is the quality of portfolio? Is the Board receiving timely and accurate information on the level of delinquency? What are the relevant patterns/ trends?
- What is the receivables write-off policy?

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- Liquidity/solvency risk—How will current cash obligations be met in a timely and cost-efficient manner? Is the company frequently delaying payment of outstanding loans?
- Investment risk—What is the policy regarding investing excess cash? Are these investments secured? How are banking relationships monitored? Are the banks used by the company considered stable?
- Political and macroeconomic risk—How might political changes or economic policies affect the company's ability to conduct business? How might they affect clients' businesses?
- What is the regulatory environment and whose interests are represented there? What processes are in place to monitor and analyze the potential impact on the company?
- Currency risk—How stable is the local currency? What is the likelihood of currency devaluation? How will that affect ability to pay debtors and receive payments from creditors? How will it erode the equity (or net asset base) of the company? How does the company reduce its risk associated with any loans or borrowings in a foreign currency or linked to a foreign currency? What will happen if there is a sudden change in the value of the local currency?

Appendix 4
Corporate Governance Self-Assessment Checklist

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
1.	**Formal charter/Terms of reference for the board** Define and document a formal Board Charter/statement of responsibilities. At a minimum, the Charter should include the following responsibilities: • The overall business performance and strategy • Annual review of strategy • Causing financial statements to be prepared which accurately disclose the financial position • Review of management structure and responsibilities • Monitoring management performance • Convening and preparing the agenda for shareholder meetings • Monitoring conflicts of interest and preventing abusive related party transactions • Assuring equitable treatment of shareholders including minority shareholders • Establishing the objectives of the company • Review of the systems and controls framework The Charter should also state that directors are individually and collectively responsible to perform the above responsibilities and that the Board is ultimately responsible for ensuring that an adequate, effective, comprehensive, and transparent corporate governance process is in place					
2.	**Appointment letter for each board member** A written appointment agreement should be signed with each member of the Board. This should cover a director's powers and duties and other matters related to the appointment including term; time commitment envisaged; committee assignment, if any; remuneration and expense reimbursement entitlement; and access to independent advice when needed. It should also disclose any business he/she conducts that competes directly or indirectly with that of the company					

3.	**Approval from Central Bank**
	Approval from Central Bank should be obtained prior to appointing any person on company's board of directors
4.	**Qualification and eligibility criteria for board director**
	Companies should follow the fit and proper requirements and Commercial Companies Law to evaluate personal and professional competence of a person to become a board member
5.	**Orientation course for new director**
	An orientation process should be put in place so that each new director is provided an overview of the Board's role and duties, company business and strategy, corporate governance, and other matters
6.	**Reviewing company strategy**
	All corporate strategies should be formally presented to the Board for review and approval
7.	In the strategy document, the Board should demonstrate that it is able to proactively identify and understand the significant risks in achieving business objectives through business strategy and plans
8.	The following areas should be covered while reviewing company strategy: • Review of business plans and inherent risk level • Assessment of adequacy of capital • Setting performance objectives • Performance review of executive management • Overseeing major capital expenditures, divestitures, and acquisitions
9.	The Central Bank should be informed in writing of major proposed changes to the strategy prior to implementation
10.	Board should approve budgets and review performance against budgets and key performance indicators

(continued)

(continued)

#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
11.	Appropriate policies and procedures should be put in place for the following: • Appointment of senior managers (ensuring they have necessary integrity, technical and managerial competence, and experience) • Succession planning (replacing key executives when necessary, ensuring appropriate resources are available, and minimizing reliance on key individuals) • Monitoring and evaluation of senior management's performance • Management of compliance risks					
12.	**Review of compliance with applicable regulations** Board should review compliance with all applicable laws and regulations (such as Labor Law; Commercial Companies Law; occupational health and safety, environment, and pollution laws; Central Bank regulations)					
13.	**Assessment of systems and control framework** The Board should assess the systems and controls framework of the company on periodic basis					
14.	**Company policies and procedures** • Appropriate policies and procedures should be developed for all functions of the company • All employees should be made aware of the policies and procedures of their respective functions and significant organization-wide policies • Management should review all policies and procedures as and when needed, at least on annual basis					
15.	**Frequency of board meetings** At least four board meetings should be held each year with preferably one meeting in each quarter					

16.	Informal communication channels should remain open to directors between the meetings
17.	A board meeting can be convened at the invitation of the Chairman or by a minimum of two members
18.	**Board meeting's agenda and other information**
	Each meeting should be preceded by distribution of appropriate meeting papers (including agenda, minutes of prior meetings and adequate background information related to agenda items)
19.	The same information should be distributed to all directors
20.	**Size of the Board**
	The Board should not have more than 15 members
21.	The Board should not have less than 5 members.
	For Closed Joint Stock Company, the minimum number of board members is 3
22.	The size and composition of the Board should be reviewed on regular basis
23.	**Attendance at board meetings**
	The minimum quorum for the board meeting is presence of at least half the board members, provided that three members thereof at least are present, unless the company's articles of association provide for a higher number or percentage. For Closed Joint Stock Companies, at least two members must be present
24.	Board rules should require board members to step down if they are not actively participating in board meeting
25.	**Minutes of board meetings**
	Board minutes should be recorded for each meeting in a special register, signed by the members present at the meeting and the secretary of the Board
26.	A report attached to the year-end quarterly Prudential Information Report (PIR) recording the meetings of the Board during the year must be submitted to the Central Bank on an annual basis

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
27.	**Maximum number of directorships** One person should not hold more than three directorships in public companies with the provision that no conflict of interest may exist. The Central Bank requires that a person may not hold more than two directorships of financial institutions. However, two directorships of same Central Bank license category are not permitted					
28.	All potential nonexecutive directors should be made aware of their duties and time commitment requirements prior to nomination on the Board					
29.	Each nonexecutive director should inform the Nomination Committee before he/she accepts any board appointment in another company					
30.	**Decision-making powers** An individual director cannot have unfettered decision-making powers					
31.	**Executive directors** The board members should be aware that their role of executive directors in Board is different than their role as officers					
32.	**Composition of the Board: independent and nonexecutive directors** At least half of the board members should be nonexecutive directors and at least three of those persons should be independent directors					
33.	At least one director must be both independent and nonexecutive					
34.	Director should be identified in annual report as executive, nonexecutive, and independent nonexecutive					
35.	The Chairman of the Board should be an independent and nonexecutive director and should not be the same person as the Chief Executive Officer					
36.	**Annual review of independence of directors** The Board should review the independence of each director at least annually in light of interests disclosed by them					

37.	**Meetings of independent directors** Each board meeting should be preceded or followed by a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves
38.	**Board composition in companies with controlling shareholders** In companies with a controlling shareholder, at least one-third of the Board should be independent directors
39.	The individual directors should be allowed to access independent professional advice at company's expense
40.	Individual directors should have access to Company Secretary who should have responsibility for reporting to the Board on board procedures
41.	The appointment and removal of the Company Secretary should be a matter for the Board as a whole
42.	Any serious concern or dissent from board action should be recorded in board minutes
43.	The Board should encourage participation by management in board meetings regarding matters the Board is considering or by reason of succession
44.	Nonexecutive directors should have free access to the company's management through the CEO or Chairman of Audit Committee
45.	**Charter of Board Committees** Each Board Committee should have a formal written charter defining the purpose, membership, detailed duties and responsibilities, structure and operations, resources and authority, and performance evaluation
46.	The Committees should act only within their mandate and are not allowed to dominate or override the full Board in decision-making
47.	Committees can be combined provided no conflict of interest arises between the duties of such committees. This should be subject to Central Bank's prior approval

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
48.	The Board should review committees' charters on a periodic basis					
49.	It is necessary to establish an Audit Committee, a Nomination Committee, and a Remuneration Committee. In addition, the Board may establish other committees such as an Executive Committee or a Risk Committee					
50.	A process should be in place to review and report performances of the Board, each committee, and each individual director on an annual basis. The evaluation should include: • Assessment of the Board's performance in light of principle 1 of the code of corporate governance • Assessment of the performance of each committee given its specific mandate and a review of self-evaluation by the committee • Reviewing each director's work, attendance at board and committee meetings, and involvement in discussions and decision-making • The Board's current composition and the need to change its composition with a view to maintaining appropriate skill sets and experience and towards planned and progressive refreshing of the Board					
51.	The evaluation should be organized and assisted by an internal board committee and, when appropriate, with the help of external experts					
52.	Board should make use of self-assessments and/or independent judgments made by external advisors					
53.	At each annual shareholder meeting, the Board should report to the shareholders that performance evaluations have been done					
54.	All directors should understand that they are personally accountable to the company and shareholders if they violate their legal duty of loyalty to the company and can be personally sued for such violations					

55. A director should not use the property of the company for his/her personal needs
56. A director should not disclose confidential information or use it for personal profit
57. A director should not take business opportunities of the company for himself and should not compete in business with the company
58. A board member cannot exercise any business in competition with the company's activities without special and justified authorization by the General Assembly, to be renewed annually
59. A director should serve the company's interest in any transaction in which he/she has a personal interest
60. Each board member should understand (by documenting it in the Board's charter) that any decision to enter into transactions, under which board members or any member of the management would have material conflict of interest, needs to be formally and unanimously approved by the full Board
61. Each director and officer should make every practicable effort to arrange his/her personal and business affairs to avoid a conflict of interest with the company
62. A conflict of interest policy should be developed and communicated to each director
63. The conflict of interest policy should cover procedures for identification, reporting, disclosure, prevention, and strict limitation of potential conflicts of interest
64. Each director and officer should inform the entire Board of conflicts of interests as they arise
65. A director should abstain from voting on any matter where there is a conflict of interest

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
66.	A formal procedure should be established for periodic disclosure and updating of information by each director and officer on his actual and potential conflicts of interest					
67.	A formal procedure should be established to obtain advance approval, in each case, by disinterested directors or shareholders of all transactions in which a company director or officer has a personal interest					
68.	All board members and members of senior management must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5 % of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis					
69.	The company should disclose to its shareholders in the annual report any abstention from voting motivated by conflict of interest and all cases of authorization of a conflict of interest contract or transaction					
70.	A code of conduct should be documented and published for the Board, senior management, and employees					
71.	The code of conduct should include: • Commitment by the Board and management to the Code • Commitment to the law and best practice standards • Employment practices • How the company deals with disputes and complaints from clients and monitors compliance with the code • Confidentiality					
72.	**Size and composition of the Audit Committee** An Audit Committee should be established of at least three members					

73. The majority of the members should be independent including the Chairman. The CEO cannot be a member of the Audit Committee

74. At least one member of the Audit Committee must be a qualified and appropriately experienced accountant. All members must be financially literate

75. A written charter, duly approved by the Board, should be adopted by the Audit Committee. The charter should include the purpose, membership, duties, structure and operations, resources and authority, and performance evaluation framework for the Committee.

76. **Responsibilities of the Audit Committee**

At a minimum, the Audit Committee's responsibilities should include the following:

- Review the company's accounting and financial practices
- Review the integrity of the company's financial and internal controls and financial statements
- Recommend the appointment, compensation, and oversight of the company's outside auditor
- Recommend the appointment of an internal auditor; review and discuss the adequacy of internal auditing personnel and procedures
- Review the activities and performance of the internal audit function
- Review and discuss arrangements under which company employees can confidentially raise concerns about possible improprieties in financial reporting or other matters
- Review whether the company complies with all relevant laws, regulations, codes, and business practices
- Review and supervise the implementation and enforcement of the code of conduct

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
77.	**Whistle-blower program** A "whistle-blower" program should be adopted under which employees can confidentially raise concerns about possible improprieties in financial or legal matters					
78.	**Frequency of meetings** The Audit Committee should meet at least four times a year					
79.	**Meetings with External Auditors** The Audit Committee should meet with external auditors at least twice a year and at least once a year in the absence of a member of executive management					
80.	**Internal Audit function** An Internal Audit function should be established reporting directly to the Audit Committee (with a parallel reporting line to senior management for day-to-day matters)					
81.	The CEO and Chief Financial Officer should certify in writing to the Audit Committee and the Board that the company's interim and annual financial statements present a true and fair view, in all material respects, of the company's financial condition and the results of operations in accordance with applicable accounting standards					
82.	**Size and composition of Nomination Committee** A Nomination Committee should be established of at least three members					
83.	All members of the Nomination Committee should be independent directors or, alternatively, nonexecutive directors of whom a majority should be independent directors and the Chairman should also be an independent director					

84. A written charter, duly approved by the Board, should be adopted by the Nomination Committee. The charter should include the purpose, membership, duties, structure and operations, resources and authority, and performance evaluation framework for the Committee

85. **Responsibilities of the Nomination Committee**

At a minimum, the Nomination Committee's responsibilities should include the following:

- Identify persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board, with the exception of the appointment of the internal auditor
- Make recommendations to the whole Board of Directors including recommendations of candidates for board membership to be included in the agenda for the next annual shareholder meeting

86. **Frequency of meetings**

The Nomination Committee should meet at least twice a year

87. Each proposal by the board to the shareholders for election or re-election of a director should be accompanied by a recommendation from the Board, a summary of advice of the Nominating Committee, and the following specific information:

- The term to be served
- Biographical details and professional qualifications
- A statement that the Board has determined the criteria of independence of judgment for independent directors have been met
- Any other directorships held
- Particulars of other positions which involve significant time commitments
- Details of candidate's relationships with the company as well as with other directors of the company

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
88.	**Term of directorship** The term may not exceed 3 years, but there is no limit on re-election for further terms					
89.	While proposing re-election, the Chairman of the Board should confirm to shareholders that, following a formal performance evaluation process, the person's performance continues to be effective and continues to demonstrate his/her commitment to the role					
90.	A board term beyond 6 years (23-year terms) should be subject to a particularly rigorous review and should take into account the need for a progressive refreshing of the Board					
91.	The General Assembly should elect the board members by secret ballot					
92.	The General Assembly may appoint a number of experts on the board of directors other than the founder or the shareholders					
93.	The Board of Directors shall elect by secret ballot a Chairman and a deputy for 1 year unless the company's articles of association provide for another period					
94.	**Termination of directorship** • The company's articles of association should specify the cases in which board membership is terminated • The General Assembly may dismiss all or some of the board members even if the articles of association provide otherwise • A board member may resign from his/her office provided he resigns in a convenient time; otherwise, he/she shall be liable to pay compensation	-				

95. **Induction training**
Formal and tailored induction training should be provided to each new director. This should include meetings with senior management; visits to company facilities; presentation regarding strategic plans; significant financial, accounting, and risk management issues; compliance programs; internal and independent auditors; and legal counsel. The induction training should also be attended by all continuing directors to update themselves as to the company's business and corporate governance

96. The Nomination Committee should oversee directors' corporate governance educational activities

97. **Size of Remuneration Committee**
A Remuneration Committee should be established of at least three members

98. The Remuneration Committee may be merged with the Nomination Committee

99. **Composition of Remuneration Committee**
All members of the Remuneration Committee should be independent directors or, alternatively, nonexecutive directors of whom a majority should be independent directors and the Chairman should also be an independent director

100. A written charter, duly approved by the Board, should be adopted by the Remuneration Committee. The charter should include the purpose, membership, duties, structure and operations, resources and authority, and performance evaluation framework for the Committee

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
101.	**Responsibilities of Remuneration Committee** At a minimum, the Remuneration Committee's responsibilities should include the following: • Review the company's remuneration policies for the Board of Directors and senior management, which should be approved by the shareholders • Make recommendations regarding remuneration policies and amounts for specific persons to the whole board, taking account of total remuneration including salaries, fees, expenses, and employee benefits • Remunerate board members based on their attendance and performance					
102.	**Frequency of meetings** The Remuneration Committee should meet at least twice a year					
103.	Remuneration of both directors and officers should be sufficient enough to attract, retain, and motivate persons of the quality needed to run the company successfully, but the company should avoid paying more than what is necessary for that purpose. The remuneration will be approved by the General Assembly					
104.	The company's articles of association should specify the manner of determining the remuneration of the Chairman and board members. As laid out in the Commercial Company Law, the remuneration total shall not exceed 10 % of the net profits after deducting the net reserves and distributing a profit of not less than 5 % of the company's paid-up capital					
105.	Shareholders may decide to pay an annual remuneration to the Chairman and members of the board in the years in which the company has not achieved profits or the years in which no dividends are paid to the shareholders, provided that the related ministry approves such payment					

106. The Board of Directors' report to the shareholders should include a comprehensive account of all payments to the board members during the financial year, including salaries, profit shares, representation allowances, attendance allowances, and expenses
107. The members of the Board of Directors shall not vote on the General Assembly's resolution relating to the determination of their salaries and remuneration or to discharging them or exempting them from liability for their management
108. The remuneration of nonexecutive directors should not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits
109. The remuneration of officers should be structured such that a portion of the total is linked to company and individual performance and aligns their interest with the interest of shareholders. Such rewards may include grants of shares, bonuses, and pension benefits which are not based on salary
110. If an officer is also a director, his remuneration as an officer should take into account compensation received in his capacity as a director. All share incentive plans should be approved by the shareholders
111. The Board of Directors' report to shareholders should include an account of the amounts paid to members of the Board in their capacities as employees and administrators and what they have received for technical, administrative, or consulting services or any other business
112. All performance-based incentives should be awarded under written objective performance standards which have been approved by the Board
113. For all performance-based incentive plans, shares should not vest and options should not be exercisable within less than 2 years of the date of the awarding of the incentive

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
114.	All performance-based incentive plans should be approved by the shareholders					
115.	At a minimum, the following officers should be appointed: • CEO • CFO • Corporate Secretary • Internal Auditor					
116.	**Central Bank approval** Appropriate prior approval from the Central Bank is required before appointing any person in a controlling function (director, CEO, senior manager, compliance officer, money laundering reporting officer (MLRO), and deputy money laundering reporting officer (DMLRO)). In addition, the Central Bank should be notified if any of the above cease to hold the function for which he/she was approved, for whatever reason					
117.	The Central Bank should also be notified in writing of any proposed changes to senior positions or ownership changes prior to the change					
118.	The permanent replacements of controlled functions should be appointed within 120 calendar days. The Central Bank should also be notified of immediate arrangements for the interim period					
119.	**Duties and responsibilities** The Board should adopt by-laws (with advice from the Nomination Committee and in consultation with the CEO) prescribing each senior officer's title, authorities, duties, and internal reporting responsibilities					
120.	**Authorization limits** The Board should specify the limits it wishes to set on the authority of the CEO or other officers, such as monetary maximums for transactions which they may authorize without separate board approval					

121. **Corporate secretary**
The Corporate Secretary should be responsible for reviewing company's procedures and advising board directly on such matters (wherever practical, corporate secretary should have legal or similar professional experience and training)

122. **Succession planning**
On annual basis, the Board should review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The plan should include an assessment of the experience, performance, skills, and planned career paths for possible successors to the CEO

123. Notices of meetings should be honest, accurate, and not misleading

124. Meetings should be held during normal business hours and at a place convenient for the greatest number of shareholders to attend

125. Ordinary general assembly meeting should be held at least once a year during the 6 months following the end of the company's financial year

126. Invitations to the general assembly meeting should be sent by registered mail at least 15 days before the meeting

127. Notices of meetings should encourage shareholders to participate by proxy and should refer to the procedures for appointing a proxy and for directing the proxy how to vote on a particular situation

128. Notices should ensure that all material information and documentation are provided to shareholders on each agenda item

129. The Board should propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not bundled together

130. In meetings where directors are to be elected or removed, the board should ensure that each person is voted on separately, so that the shareholders can evaluate each person individually

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
131.	The minutes of the meeting must be made available to shareholders upon their request no later than 30 days after the meeting					
132.	Disclosure of all material facts should be made by the Chairman to the shareholders prior to any vote					
133.	The annual general meeting/shareholder meeting should be attended by shareholders representing more than half the shares					
134.	All directors should attend each shareholder meeting and be available to answer questions from shareholders					
135.	The external auditors should attend each shareholder meeting and be available to answer questions from shareholders concerning the conduct and conclusions of the audit					
136.	• A specific section should be dedicated on the company's website to describe shareholders' rights to participate and vote at each shareholder's meeting • The company should also post significant documents related to meetings including the full text of notices and minutes • The company may also consider establishing electronic means for shareholders' communication including appointment of proxies • For confidential information, the company should grant a controlled access to such information to its shareholders					
137.	The company should submit copy of the decisions of electing the Chairman, his deputy, and the managing directors to the related ministry					
138.	The auditor's appointment, term, and remuneration should be an agenda item in each ordinary annual general meeting					
139.	A copy of the auditor's reports should be provided to the related ministry					

140. The Chairman of the board and other directors should maintain continuing personal contact with major shareholders to solicit their views and understand their concerns

141. The Chairman should ensure that the views of the shareholders are communicated to the Board as a whole

142. The Chairman should also discuss governance and strategy with major shareholders

143. The Board should encourage investors, particularly the institutional investors, to help in evaluating the company's corporate governance

144. In companies with one or more controlling shareholders, the Chairman and other directors shall actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders

145. **Size and composition of the Corporate Governance Committee**
A Corporate Governance Committee should be established of at least three independent members

146. **Responsibilities of the Corporate Governance Committee**
The Corporate Governance Committee should be responsible for developing and recommending changes from time to time in the company's corporate governance policy framework

147. **Corporate Governance Guidelines**
The Board should adopt written corporate governance guidelines covering the matters in the code of corporate governance and other matters deemed appropriate. The guidelines should include or refer to the principles and numbered directives of the code of corporate governance

148. **Publishing the Corporate Governance Guidelines**
The company should publish its corporate governance guidelines on its website

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#	Implementation step	Central Bank code ref.	Country code ref.	Commercial Companies Law	Complied? (Y/N)	Explain noncompliance
149.	**Reporting compliance with the Corporate Governance** In each shareholder's meeting, the Board should report on the company's compliance with the corporate governance code and guidelines and should explain the extent of variances with justifications					
150.	**Establishing risk management system** An appropriate, effective, and prudent risk management system should be in place commensurate with the scope of activities of the company					
151.	**Control environment** The following should be in place for the control environment to be appropriate and adequate: • Compliance, risk management, and financial reporting functions must be adequately resourced, independent of business lines, and must be run by individuals not involved in day-to-day running of various business areas • Comprehensive Anti-Money Laundering (AML) and Know Your Customer (KYC) guidelines should be in place • Controls to ensure client confidentiality and privacy must be in place • Controls to safeguard clients' assets and rights should be in place • Appropriate and timely actions should be taken whenever a significant issue is found					

152. **Internal controls**
The senior management should put in place appropriate systems of internal controls and updates Board on the following:
- Process to identify and monitor risks
- Process to generate financial position
- Process to review compliance with applicable laws, regulations, and best practice standards

153. **Reporting audit findings to the Board**
Significant internal and external audit findings should be presented to the Board.

Checklist glossary

AML—Anti-Money Laundering
Board—Board of Directors of the company
CB—Central Bank
CEO—Chief Executive Officer of the company
CFO—Chief Financial Officer
Code—Corporate governance code of the country or company
Company Law—Commercial Companies Law
Director—Member of the Board of Directors
DMLRO—Deputy Money Laundering Reporting Officer
HC—High-level controls issued by the Central Bank in the rulebook for conventional banks
LR—Licensing Requirements issued by the Central Bank in the rulebook for conventional banks
PD—Public Disclosure requirements issued by the Central Bank in the rulebook for conventional banks
KYC—Know Your Customer
MLRO—Money Laundering Reporting Officer
PIR—Prudential Information Report

Appendix 5
Sample of Authorization Policy and Procedure

Policy

This policy documents the approval and authorization requirements necessary to commit company funds or assets. Appropriate authorization must be obtained prior to ordering goods and services and in no event will payment be made prior to receiving proper authorization. This policy is intended to apply to company operations worldwide, effective immediately.

Procedures

1. All employees must be aware of and adhere to their approved authorization limits.
2. The finance organization is responsible for ensuring compliance with these guidelines. Either the President or the Chief Financial Officer may approve exceptions to this policy, but not beyond the limits of their authority.
3. The authorization limits should be converted to the functional currency of the operation. It is the local finance manager's responsibility to update the local levels, as needed, due to foreign currency exchange fluctuations.

Related Party Transactions

All related party transactions should be handled in accordance with the company's related party transaction policy. A related party transaction includes the purchase of goods or services from an employee of the company, an immediate family member(s) of the employee, or a company, partnership, or other entity controlled by an

H. Rampersad and S. Hussain, *Authentic Governance: Aligning Personal Governance with Corporate Governance*, Management for Professionals,
DOI 10.1007/978-3-319-03113-2,

employee or their immediate family member(s). Related party transactions cannot be presumed to be carried out at arm's length. Thus, all such related party transactions require pre-approval by the Corporate Controller or Chief Financial Officer.

Approvals/Documentation

1. All commitments require appropriate documentation and approval in advance of the contemplated transaction. The requisition documentation should include the requester's name, the business unit being charged for the goods/services, a brief description of the goods/services being requested, the cost of the request, and the signature of the individual approving the request.

Frequently Asked Questions

What If My Designated Approver Is Not Available?

Approval must be obtained from the individual at the next higher level according to the approval matrix. Alternatively, you may obtain approval from an authorized substitute signer.

When Is This Policy Effective?

This policy is effective immediately.

1. The originator of the requisition is responsible for obtaining all authorizing signatures. The purchasing department/purchasing agent will confirm that the authorizing signatures are appropriate prior to processing a purchase order.
2. The company's authorization matrix contains a listing of the most common types of commitments and expenditures and the appropriate signature level required. Each requisition should also have the signature of the immediate supervisor in addition to the signature of the individual with the appropriate level of authorization. In addition, under certain circumstances, functional approval may also be required.
3. Employee expense reports and requisition documents must be approved by an individual senior to the employee initiating the requisitioning document. No employee shall approve his/her own expenditures.
4. Employees are strictly prohibited from requesting that a supplier split the purchase amount on more than one invoice to meet the approval limits of this policy.

5. During an authorized signer's absence from the office, signature authorization may be obtained from the individual at the next higher level. Alternatively, an authorized signer may designate a substitute signer with the approval of the next higher level. The delegation of signature authority by the authorized signer may be evidenced by signature on a facsimile or via electronic mail.

Frequently Asked Questions

How Many Signatures Do I Need for My Requisition?

At least two signatures are required—one from your immediate supervisor and one from the appropriate authorized approver in accordance with the approval matrix.

How Do I Obtain a Purchase Requisition?

An example of a standard purchase requisition can be found in the purchasing policy.

What If I Am Located in a Foreign Office?

The authorization limits should be converted to the functional currency of the operation. It is the local finance manager's responsibility to update the local levels, as needed, due to foreign currency exchange fluctuations.

Approval Matrix

Expenditure type	Level A	Level B	Level C	Level D	EVP	CFO	CEO[a]
Employee expense reports	(insert $)	(insert $)	(insert $)	(insert $)	(insert $)	(insert $)	(insert $)
Licensing and royalty arrangements[b]							
Purchase of goods and services							
General expenses							
Software purchases							
Capital asset purchases							
Check requests							
Wire transfers							

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Expenditure type	Level A	Level B	Level C	Level D	EVP	CFO	CEO[a]
Establishment of contracts							
Sales/deals[b]							
Insurance							
Payment against approved contracts							
Advertising							
Consulting services[c]							
Recruiting services[c]							
Outside/other services							
Leases of facilities, property, and equipment[d]							
Contributions							
Employee loans							
Write-off/reserve of balance sheet items							
Acquisitions/ divestitures							
Formation/capitalization of subsidiaries[e]							
Bank/financial instruments[f]							
Tax payments and settlement agreements[g]							
Relocation							
Discretionary bonuses							
Vehicle reimbursement							

Authorization Categories

A. Includes supervisors and managers

B. Includes country managers (net revenues under X million), local finance managers, US district managers, and directors

C. Includes country managers (net revenues over X million), international regional managers, regional finance managers, US regional managers, senior directors, and finance directors

D. Includes VP of Operations, VP and CIO, VP and Treasurer, and Corporate Controller

[a] Commitments beyond the CEO's authorization limit require board of director approval

[b] Must require General Counsel pre-approval

[c] Establishment of relationships with recruiting firms must require human resources director approval

[d] Facilities leases require Director of Facilities pre-approval

[e] Requires pre-approval by CFO and Director of Tax

[f] Requires pre-approval by Treasurer

[g] Requires pre-approval by Director of Tax

Appendix 6
Sample Charter of Audit Committee

I. Purpose

The Audit Committee of the Board of Directors is instrumental in the Board's fulfillment of its oversight responsibilities relating to (1) the integrity of the Company's financial statements; (2) the Company's compliance with legal and regulatory requirements; (3) the qualifications, independence, and performance of the Company's external auditors; (4) monitoring the performance of the Company's internal audit function; and (5) the business practices and ethical standards of the Company. The Audit Committee shall also fulfill the other responsibilities set forth in this Charter.

II. Committee Membership

The Committee shall be composed of at least three members, all of whom are designated by the Board as independent. To be considered independent, each Committee member must meet the independence, financial, and expertise requirements of (insert name of stock exchange), and other applicable laws and regulations. The Nominating and Corporate Governance Committee shall recommend nominees for appointment to the Audit Committee annually and as vacancies or newly created positions occur. Audit Committee members shall be appointed by the Board and may be removed by the Board at any time. At the time of appointment, all Audit Committee members must be able to read and understand financial statements. The Board must appoint one member to be a financial expert, based on documented experience and qualifications. If a regular member is unable to act due to absence, illness, or any other cause, the Committee Chairperson, or in his/her absence by the Board, may appoint another independent director of the Board to serve as an alternate member. The Nominating and Corporate Governance Committee shall

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recommend to the Board, and the Board shall designate, the Chair of the Audit Committee. The Committee Chairperson shall not serve for more than X years, though he/she may remain a member of the Committee and may serve as the Committee Chairperson again in a future term.

III. Meetings

The Audit Committee may meet as frequently as required, but at least quarterly. The meeting may be conducted through in-person, conference call, or any other means permissible by law. Only the Audit Committee Chairperson and members shall be entitled to participate in Committee meetings. At the invitation of the Committee, other members or individuals may attend as deemed necessary.

IV. Audit Committee Secretary

The Audit Committee will be responsible for electing a Secretary annually to perform the following duties:

- Provide notification of meetings to other Committee members.
- Draft minutes of the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The minutes should be forwarded to the Committee Chairperson for review and subsequently to all members of the Committee.
- Provide detailed documentation and minutes regarding any discussion of the criteria set forth in the Committee Responsibilities. In the event of a concern of accounting irregularities, fraud, or a significant violation of senior management is established, careful attention must be given to the level of detail in regard to the completeness and accuracy of the minutes.

V. Quorum

The quorum necessary for the transaction of business shall be a majority of the Audit Committee members. In accordance with guidelines set forth in the Committee membership, an alternate independent member may be appointed by the Board to serve in the interim due to absence, illness, or any other cause.

VI. Authority

The Audit Committee has the sole authority to seek the information it requires from employees, company officers, company documents, and external parties; and to investigate, engage advisors, or otherwise obtain independent legal, accounting, or other professional services it requires at the expense of the company.

VII. Committee Responsibilities

A. Financial Statement and Disclosure Matters

The Audit Committee will review and discuss with management, senior internal auditor(s), and the external auditors and others as the Audit Committee deems appropriate:

- The integrity of annual audited financial statements and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the recommendation to include the financial statements in the annual report to the Board
- The quarterly financial statements and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to submission to regulatory authorities
- Any significant financial reporting issues, judgments, and use of estimates made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles
- The critical accounting policies and practices of the Company
- Regulatory and accounting initiatives or actions applicable to the Company

The Audit Committee shall review, in conjunction with management, the Company's policies generally with respect to the Company's earnings press releases and with respect to financial information and earnings guidance provided to analysts and rating agencies, including in each case the type and presentation of information to be disclosed, paying particular attention to the use of non-GAAP/IFRS financial information. The Audit Committee shall review, in conjunction with the CEO and CFO of the Company, the Company's internal and disclosure controls and procedures over financial reporting, including whether there are deficiencies, material weaknesses, potential fraud opportunities, or any other corrective actions to be taken with regard to controls and procedures.

The Audit Committee shall have sole authority over the resolution of any disagreements between management and the independent auditor regarding the Company's financial reporting. The Audit Committee shall review and discuss with the independent auditors any significant audit problems or difficulties and management's response thereto or other resolution thereof, including those matters required to be discussed with the Audit Committee by the auditors pursuant to Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee shall prepare the Audit Committee report that the regulatory authorities require in the Company's annual proxy statement.

B. External Audit

The Audit Committee shall make recommendations to the Board regarding the appointment, reappointment, or removal of the External Auditors. The External Auditors shall report directly to the Committee. If the External Auditors resign, the Committee shall investigate the issues giving rise to such resignation and consider whether any action is required. The Audit Committee shall review the scope and staffing of the External Auditors' annual audit plan(s). The Audit Committee shall evaluate the external auditors' qualifications, performance, and independence and shall present its assessment to the full Board on at least an annual basis. As part of the evaluation, at least annually, the Audit Committee shall consider the following by obtaining and reviewing a report or reports from the Company's external auditors:

- Describing the external auditors' internal quality-control procedures
- Describing any material issues raised by (1) the most recent internal quality-control review or peer review of the auditing firm or (2) any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the auditing firm, and any steps to deal with any such issues
- Describing all relationships between the external auditors and the Company, consistent with applicable standards

The Audit Committee shall obtain the opinion of management and the internal auditors of the independent auditors' qualifications, performance, and independence. The Audit Committee shall assist in establishing policies regarding the Company's hiring practices of current or former employees of the independent auditors.

C. Internal Audit

At least annually, the Audit Committee shall evaluate the performance, responsibilities, budget, and staffing of the Company's internal audit function. Such evaluation shall include, but not be limited to, a review of the responsibilities, budget, and staffing of the Company's internal audit function with the External Auditors.

D. Other Risk Management Matters

The Audit Committee shall review the Company's policies and practices with respect to risk assessment and risk management, including discussing with management the Company's major financial risk exposures and the steps that have been taken to monitor and control such exposures.

E. Other Duties

The Audit Committee shall also:

- Annually review the absence of any conflicts or related party transactions with respect to the CFO and his/her significant business and investment transactions. The CFO shall be prohibited from any profit-making business activities outside of the Company that relate to activities of the Company and shall not have been employed by the Company's external auditor firm(s) during the prior X years or if involved in the firm's audit of the Company during the prior X years.
- Obtain reports from management on the Company's conformity with the Company's Code of Business Conduct and Ethics. Review disclosures required to be made under the securities laws of insider and affiliated party transactions. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics. Review the procedures that the Company has implemented regarding compliance with the Company's Code of Business Conduct and Ethics.
- Monitor the implementation of procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, auditing, or other matters, including mechanisms for anonymous submission of related concerns by Company employees.

Review with the Company's General Counsel legal matters regarding financial transactions, fraud, or any other issue that could have significant impact on the annual reports.

VIII. Reporting

The Audit Committee shall provide an update to the Board about Committee activities:

- After each meeting, identifying matters in respect of which it considers that action or improvement is needed, including where the Committee is not satisfied with any aspect of risk management and internal control, financial reporting or audit-related activities; including the independence and performance of the External Auditors, or any other matters the Committee deems appropriate while making recommendations as to the steps to be taken.

- Bring to attention of the Board material issues as well as complaints or concerns regarding accounting, internal accounting controls, auditing, or other matters and, at least annually, review with the Board the Company's report regarding compliance with internal controls (including with respect to insider trading compliance).
- Provide at least annually to the Board a report regarding the Audit Committee's discharge of responsibilities, overall performance, and recommendations for improvement in the design and effectiveness of the Audit Committee.
- Provide a report annually to shareholders regarding how the Audit Committee has discharged its responsibilities and how auditor objectivity and independence has been safeguarded.

IX. Limitations of the Audit Committee's Role

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete, accurate, and in accordance with GAAP. This is the responsibility of management and the external auditors. Furthermore, while the Audit Committee is responsible for reviewing the Company's policies and practices with respect to risk assessment and management, it is the responsibility of the CEO and senior management to determine the appropriate level of the Company's exposure to risk. It is the duty of the Audit Committee to report regularly to the Board with respect to any issues that arise concerning the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's external auditors, the performance of the internal audit function, or any other matter within the scope of the Committee's functions.

Appendix 7
Sample Agenda of Audit Committee Meetings

Given below is a typical agenda of the topics to be covered by the committee, within the different quarters of any 1 year and taking into account the year planner of main events. We need to take into account that the topics and issues included in the proposed agendas are merely samples or examples depending upon the size of the company, its sector, business, and the specialized scope of its operations. The order of the issues and topics included in the sample agenda below could vary in terms of the timing of their discussion, whether it is between quarters, the type and significance of such topics, and the company's business and financial year.

First Quarter (January)

- Review annual financial statements, reports, External Auditor's findings, and management letter of the year ended.
- Review internal audit plan status, significant findings, and action plan.
- Hold executive sessions with External Auditors on major findings and recommendations for improvements and changes.
- Approval of internal audit annual plan and budget.
- Conduct performance appraisal for Internal Auditor and the audit department staff.
- Ensure management undertakes staff performance appraisals for the year ended.
- Ensure management preparation of staff training plans for the coming year.
- Other matters arising from previous meetings.

Second Quarter (April)

- Review first quarter management accounts, activity, and compliance reports by CEO/management.
- Review first quarter results, reports, and External Auditor's findings.

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- Review internal audit plan status and significant findings and action plan.
- Review management's assessment of risks and controls (including executive session with management).
- Review External Auditor's management letter, management responses, and corrective action plan.
- Review External Auditor's reappointment and recommendation to board.
- Review external audit report on Anti-Money Laundering (AML) compliance.
- Other matters arising from previous meetings.

Third Quarter (July)

- Review second quarter management accounts, activity, and compliance reports by CEO/management.
- Review second quarter results, report, and external auditor's findings.
- Review internal audit plan status and significant findings and corrective action plan.
- Review and approve external audit scope and plan for the annual reports.
- Review of internal audit effectiveness and plan status report.
- Arrange management presentations (IT, risk management, compliance, AML, investments, etc.).
- Other matters arising from previous meetings.

Fourth Quarter (October)

- Review third quarter management accounts, activity, and compliance reports by CEO/management.
- Review third quarter results, report, and external auditor's findings.
- Review internal audit plan status and significant findings and corrective action plan.
- Review and approve internal audit plan for the coming year.
- Review accounting and reporting requirements (new or amendments).
- Review internal audit's assessment of risks and controls (including executive session with management).
- Review annual risk management reports.
- Other matters arising from previous meetings.

Appendix 8
Suggested Matters to Discuss in Audit Committee Meetings

The following are examples of the kind of questions that could be asked of executive management, external auditors, and internal auditors with the objective of enhancing controls and effectiveness of complying with rules, regulations, and standards.

Suggested Issues to Be Raised with Executive Management

- Nature and extent of complex or unusual financial transactions (derivatives, hedge accounting, managed funds, etc.)
- Evaluation of doubtful debts and loan loss reserve
- Credit risk concentration
- Obsolete or slow moving stock
- Valuation of investments
- Commitments and contingent liabilities
- Revenue recognition policy
- Unusual/nonrecurring revenues and expenses
- Related party transactions
- Conflict of interest issues
- Compliance issues
- Anti-Money Laundering (AML) issues
- Suspicious transactions
- Corporate governance issues

Suggested Issues to Be Raised with External Auditors

- High-risk areas and audit plans
- Changes in accounting rules and regulations that might affect the financial statements

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- Change in accounting policies which may impact financial statements
- Undisclosed risks or uncertainties
- Unadjusted audit differences
- Materiality measures
- Sufficient time, resources, and access
- Compliance issues/AML
- Corporate governance issues

Suggested Issues to Be Raised with Executive Management

- Definition and identification of risks
- High-risk areas in the company
- Sufficient resources and access
- Management cooperation
- Usage of outsourcing, external consulting, and effectiveness
- Criteria to establish and prioritize internal audit plan
- Views on control, risk, fraud, AML, compliance, and corporate governance
- Written internal audit charter
- Policies and procedures
- IT security issues
- Business continuity and disaster recovery plans

Appendix 9
Self-Assessment Checklist for Audit Committee

The following are some of the key questions that the Audit Committee can consider when undertaking the self-assessment exercise.

A. Committee and Governance Structure

Terms of Reference

1. Evaluate the clarity and comprehensiveness of the committee's terms of reference and responsibilities.

- Strong
- Adequate
- Needs improvement

2. During the past 12 months, did the Committee address all responsibilities, as detailed in the terms of reference?

- Yes
- No

3. Do you believe the Committee is addressing areas that should be directly dealt with by the board or other committees?

- Yes
- No

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Skills and Competencies

4. How would you assess the Committee's commitment to competence, integrity, and the fostering of a climate of trust and a "no-surprises" environment?

   - Strong
   - Adequate
   - Needs improvement

5. Are you aware of any relationships or dealings that may impair, or may be perceived to impair, your or another committee member's independence?

   - Yes
   - No

6. How would you assess the Committee's overall independence?

   - Strong
   - Adequate
   - Needs improvement

7. Does the mix of skills on the Committee allow the Committee to effectively perform its assigned responsibilities?

   - Yes
   - No

8. Given the company's business and risk environment, assess your skills and experience to analyze and critically evaluate information presented to the Committee.

   - Strong
   - Adequate
   - Needs improvement

9. Evaluate the quality of training/briefing you receive (internal and external) on developments in regulations, audit, accounting, financial reporting, and the industry.

   - Strong
   - Adequate
   - Needs improvement

10. How would you assess the Committee's overall financial literacy?

    - Strong
    - Adequate
    - Needs improvement

11. Evaluate the Committee's understanding of the company's significant financial risks and financial reporting risk.

    - Strong
    - Adequate
    - Needs improvement

12. How would you assess the Committee's understanding of the company's significant nonfinancial risks that may have implications on the financial reporting risk?
    - Strong
    - Adequate
    - Needs improvement
13. How well does the Committee understand the company's compliance processes?
    - Strong
    - Adequate
    - Needs improvement
14. Evaluate the Committee's understanding of statutory reporting requirements.
    - Strong
    - Adequate
    - Needs improvement
15. Evaluate the Committee's understanding of the company's significant accounting policies, accounting estimates, and financial reporting practices.
    - Strong
    - Adequate
    - Needs improvement
16. Assess the Committee's confidence in dealing with any complex and difficult matters brought before it.
    - Strong
    - Adequate
    - Needs improvement
17. Does the Committee have access to appropriate internal and/or external resources to assist the Committee in understanding and dealing with complex and difficult matters on a timely basis?
    - Yes
    - No
18. Assess the consistency and appropriateness of how the Committee probes and challenges on what is presented to it.
    - Strong
    - Adequate
    - Needs improvement
19. Are dissenting views of committee members appropriately addressed?
    - Yes
    - No

Meeting Administration

20. Has the Committee had the appropriate number of meetings to properly discharge its duties during the year?
    - Yes
    - No
21. Does the agenda-setting process allow for all the necessary matters to be included?
    - Yes
    - No
22. Can and do management and internal and external auditors influence the content of the agenda?
    - Yes
    - No
23. Is the agenda structured to allow sufficient time to discuss the most complex and critical issues?
    - Yes
    - No
24. Does the Committee receive agenda items and supporting papers in sufficient time prior to meetings?
    - Yes
    - No
25. Are the agenda, supporting papers, and recommendations of sufficient clarity and quality to make informed decisions?
    - Yes
    - No

Meeting Conduct

26. Evaluate the processes in place to facilitate review by the Committee of urgent issues or significant transactions.
    - Strong
    - Adequate
    - Needs improvement
27. Does the Committee spend sufficient time discussing issues of importance?
    - Yes
    - No

Board Communication

28. Assess the quality of the Committee's communications to the board about the Committee's deliberations.
    - Strong
    - Adequate
    - Needs improvement
29. Is the board well informed on a sufficiently timely basis regarding the Committee's deliberations?
    - Yes
    - No
30. How would you assess the Committee's overall performance?
    - Strong
    - Adequate
    - Needs improvement

B. Areas of Focus

Management

31. Were there significant gaps between what was presented to the Committee by management (nature, clarity, quality, and timeliness) and what the committee expected to receive from management in respect of:
    - Risk identification and assessment, including the process to identify company risks that may have financial reporting implications?
      - Yes
      - No
    - The internal control framework designed by management to identify and mitigate risk, including fraud?
      - Yes
      - No
    - The internal control framework designed by management for ensuring compliance with regulations and internal policies?
      - Yes
      - No
    - Significant regulatory findings or notifications of regulatory noncompliance/violation?
      - Yes
      - No

- Complaints received by the company regarding financial reporting, internal controls, and audit?
  - Yes
  - No

32. How would you assess the quality and openness of the Committee's discussions with management?
    - Strong
    - Adequate
    - Needs improvement
33. Evaluate the adequacy of the time spent by the Committee in discussing issues with management.
    - Strong
    - Adequate
    - Needs improvement

Internal Audit

34. Did the Committee assess internal audit's independence and objectivity?
    - Yes
    - No
35. Evaluate the Committee's assessment process of internal audit's independence.
    - Strong
    - Adequate
    - Needs improvement
36. Did the Committee assess the performance of the internal audit function?
    - Yes
    - No
37. Evaluate the Committee's assessment process of internal auditors' competency.
    - Strong
    - Adequate
    - Needs improvement
38. Did the Committee review and approve the internal audit plan?
    - Yes
    - No
39. Did the Committee receive appropriate information to assess internal audit's progress against the plan, to track progress against significant issues and findings, and to understand significant findings and examination trends?
    - Yes
    - No

40. Did the Committee have direct communication channels with the person(s) carrying out the internal audit function or activity?
    - Yes
    - No
41. Was the Committee able to convene meetings with the Internal Auditors without the attendance of other directors and employees of the company whenever deemed necessary?
    - Yes
    - No
42. How would you assess the Committee's confidence in internal audit?
    - Strong
    - Adequate
    - Needs improvement

External Audit

43. Did the Committee consider the reappointment, or dismissal and selection, of the external auditor, especially when there are grounds to believe that the company's external auditor is not suitable for reappointment?
    - Yes
    - No
44. Did the Committee approve the current year's external audit fee and terms of engagement?
    - Yes
    - No
45. Did the Committee assess the external auditor's independence?
    - Yes
    - No
46. Evaluate the Committee's assessment process of the External Auditors' audit plan.
    - Strong
    - Adequate
    - Needs improvement
47. Did the Committee comprehensively review the performance of the External Auditors and reach a consensus view on performance?
    - Yes
    - No

48. Evaluate the adequacy of the time spent by the Committee in discussing issues with External Auditors.

    - Strong
    - Adequate
    - Needs improvement

49. Did the Committee meet with the External Auditors in the absence of management at least twice a year?

    - Yes
    - No

50. Did the Committee have direct communication channels with the External Auditors?

    - Yes
    - No

51. Was the Committee able to convene meetings with the External Auditors without the attendance of other directors and employees of the company whenever deemed necessary?

    - Yes
    - No

52. How would you assess the committee's confidence in the External Auditors?

    - Strong
    - Adequate
    - Needs improvement

Appendix 10
Performance Evaluation Sheets: Board Members and Board Committees

This sample performance evaluation sheet is designed to assist the evaluation process and may be customized to meet the requirements of the Board and board committees. Where reference is made to the company, the subsidiaries of the company are also included. This sheet is to be completed by the nominating committee on a confidential basis based on the following ratings: 1 = weak, 2 = needs improvement, 3 = adequate, 4 = consistently good, and 5 = strong

I. The Board

A. Board structure	Rating	Action plan
1. Does the Board have the appropriate composition (i.e., size) and committees corresponding to its oversight duties and the development of the company's strategy?		
2. Does it have the right mix of skills and experience to optimize performance and strategy?		
3. Are the roles and responsibilities of the Board and individual directors clearly defined in the board charter?		
4. Are matters reserved for the Board clearly defined?		
5. Does the Board work constructively as a team through collegial, productive working relationships that foster trust and respect?		
6. Do the Board discussions enhance the quality of management decision-making? Does the Board engage constructively with management to stimulate its thinking and performance?		
7. Is the company's orientation program effective in supplying useful information to new directors about the Board and company (i.e., briefings and plant visits)?		
8. Is the Board given continuing programs to keep all directors up to date with the latest developments in the market industry and regulatory environment?		

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(continued)

A. Board structure	Rating	Action plan
9. Whether the Board consists of a good balance of independent directors or are there too many directors closely affiliated with the executive board members?		
10. Have potential areas of conflicts that may impair the independence of independent directors been resolved?		

B. Board operations	Rating	Action plan
1. Are board meetings held with appropriate frequency?		
2. Is information on the agenda items provided well in advance of board meetings, with sufficient time for preparation?		
3. Is financial information adequately provided to help directors understand the important issues and trends in the business prior to board meetings?		
4. Is information on subject matter adequately and sufficiently supplied for good decision-making, i.e., is the information presented in a concise manner, highlighting key issues and risk areas with relevant details for further analysis, allowing directors to understand and evaluate agenda items of the board meetings and to take effective decisions?		
5. Is there adequate time allocated between board discussions and management presentations?		
6. Are board meetings carried out in an open communication environment with meaningful participation and the timely and constructive resolution of issues?		
7. Do directors have sufficient access to management and/or the Board Chairman?		

C. Board's roles and responsibilities	Rating	Action plan
1. Do you feel that the Board understands its role, authority, and priorities?		
2. Does the Board understand the company's values, mission, and strategic and business plans and reflect this understanding on key issues throughout the year?		
3. How effective is the Board in setting and reviewing the company's strategic plan?		
4. Has the Board identified the relevant tools, i.e., key performance indicators, to monitor executive and senior management's performance?		
5. Has the Board adequately identified and managed risks that could have a significant impact on the company?		
6. Has the Board established a succession plan that considers the appointment, training, and fixing of the CEO's and senior management's remuneration?		
7. Has the Board considered its role in protecting shareholders' interests?		
8. How would you rate the Board's deliberation of the company's investor relations program in its decision-making process?		
9. Has the Board reviewed the company's system of internal control and considered its adequacy and integrity?		

D. Board Chairman's roles and responsibilities	Rating	Action plan
1. Is the Chairman building healthy boardroom dynamics and dealing effectively with dissent and working constructively towards consensus?		
2. Does the Chairman oversee an effective decision-making process and ensure crucial alternatives are considered?		
3. Does the Chairman aim to ensure the Board's workload is properly managed and, where appropriate, allocated to delegated committees with specific terms of reference approved by the board?		

II. Board Committees

	Rating	Action plan
1. Does each committee have the right composition? (I) Nominating committee (II) Remuneration committee (III) Audit committee (IV) Risk management committee		
2. Is the committee providing useful recommendations in assisting the Board for better decision-making, and does it consequently make board meetings more efficient and effective? (I) Nominating committee (II) Remuneration committee (III) Audit committee (IV) Risk management committee		
3. Do the members of the committee have sufficient, recent, and relevant expertise in fulfilling their roles?		
4. (I) Nominating committee: Director A ________________ Director B ________________ Director C ________________		
5. (II) Remuneration committee: Director A ________________ Director B ________________ Director C ________________		
6. (III) Audit committee: Director A ________________ Director B ________________ Director C ________________		
7. (IV) Risk management committee: Director A ________________ Director B ________________ Director C ________________		

(continued)

(continued)

	Rating	Action plan
8. Are committee chairs properly discharging their responsibilities, deploying resources and expertise, and providing appropriate reporting and recommendations to the board?		
(I) Nominating committee		
(II) Remuneration committee		
(III) Audit committee		
(IV) Risk management committee		
9. Whether the appointment of board and committee Chairs based on appropriate criteria? Are we properly considering the responsibilities of the position, including the ability, experience, and expected performance of the candidate?		
(I) Nominating committee		
(II) Remuneration committee		
(III) Audit committee		
(IV) Risk management committee		
10. Is the quality of the board committee's communications to the Board about the committee's deliberations assessed regularly?		
(I) Nominating committee		
(II) Remuneration committee		
(III) Audit committee		
(IV) Risk management committee		
11. Is there an assessment by the Board of the quality of the minutes of the board committee's meetings?		
(I) Nominating committee		
(II) Remuneration committee		
(III) Audit committee		
(IV) Risk management committee		
12. Is the Board well informed on a sufficiently timely basis regarding the committee's deliberations?		
(I) Nominating committee		
(II) Remuneration committee		
(III) Audit committee		
(IV) Risk management committee		

III. Individual Directors (Self- or Peer Evaluation)

Name of the director being evaluated: _______________
Name of the director filling the evaluation (if different from above): _______________

	Rating	Comments
Contribution to interaction		
1. Shares information or insights		
2. Regular and timely attendance of board meetings		
3. Participates actively in board activities, works constructively with peers		

(continued)

(continued)

		Rating	Comments
4.	Takes strong constructive stands at board or committee meetings, where necessary		
5.	Encourages feedback from Board		
6.	Encourages meetings to focus on the agenda		
7.	Confronts conflicts and participates in finding a resolution		
Quality of inputs			
8.	Provides logical honest opinions on issues presented		
9.	Provides unique insight to issues presented—has valuable skills		
10.	Prioritizes context of issues to be in line with objectives		
11.	Motivates others to get things done, is decisive and action-oriented		
12.	Provides realism and practical advice to board deliberations		
13.	Applies analytical and conceptual skills to the decision-making process		
14.	Communicates persuasively in a clear and nonconfrontational manner		
Understanding of role			
15.	Adds value to board meetings—attends meetings well prepared		
16.	Takes initiative to request for more information		
17.	Ensures that individual contribution is relevant—up to date with developments		
18.	Focuses on accomplishing the objectives		
19.	Assesses and links short-term issues to the long-term strategy		
20.	Ensures performance of financial and human capital, keeping in mind the strategic plan when making investment decisions		
Board chairman's role			
21.	Chairman is able to lead the board effectively—encouraging contribution from all members		
22.	Chairman and CEO have a good working relationship		
23.	Chairman and CEO understand their respective roles		

Overall comments:

____

____

Appendix 11
Sample Charter of Nominating Committee

I. Purpose

The purpose of the Nominating Committee (the "Committee") of the Board of Directors (the "Board") of the Company is:

1. To identify individuals qualified to become board members, consistent with criteria approved by the Board
2. To oversee the organization of the Board to discharge the Board's duties and responsibilities properly and effectively
3. To ensure that proper attention is given, and effective responses are made, to shareowner concerns regarding corporate governance
4. To perform such other duties and responsibilities as are enumerated in and consistent with this charter

II. Membership and Procedures

1. **Membership and Appointment**: The Committee shall consist of such number of members of the Board as shall be determined from time to time by the Board based on recommendations from the Committee, if any. The Board upon the recommendation of the Committee shall appoint the members of the Committee.
2. **Removal**: The entire Committee or any individual committee member may be removed from office with or without cause by the affirmative vote of the majority of the Board. Any committee member may resign upon giving oral or written notice to the Chairman of the Board, the Corporate Secretary of the Board, which resignation shall be effective at the time such notice is given (unless the notice specifies a later time for the effectiveness of such resignation). If the resignation of a Committee member is effective at a future time, the Board may elect a successor to take office when the resignation becomes effective.

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3. **Chairperson**: A Chairperson of the Committee (the "Chairperson") may be designated by the Board based upon recommendations by the Committee, if any. In the absence of such designation, the members of the Committee may designate the Chairperson by majority vote of the full Committee membership. The Chairperson shall determine the agenda, frequency, and length of meetings and shall have unlimited access to management and information. Such Chairperson shall establish such other rules, as may from time to time be necessary and proper for the conduct of the business of the Committee. The Chairperson shall preside over any executive sessions of nonmanagement or independent directors.
4. **Secretary**: The Committee may appoint a Secretary whose duties and responsibilities shall be to keep full and complete records of the proceedings of the Committee for the purposes of reporting committee activities to the Board and to perform all other duties as may from time to time be assigned to him/her by the Committee or otherwise at the direction of a committee member. The Secretary need not be a director.
5. **Independence**: Each member shall be independent within the meaning of any applicable law or stock exchange listing standard or rule, as determined by the Board.
6. **Delegation**: The Committee may, by resolution passed by a majority of the Committee, designate one or more subcommittees, each subcommittee to consist of one or more members of the Committee. Any such subcommittee, to the extent provided in the resolutions of the Committee and to the extent not limited by applicable law or stock exchange listing standard, shall have and may exercise all the powers and authority of the Committee. Each subcommittee shall have such name as may be determined from time to time by resolution adopted by the Committee. Each subcommittee shall keep regular minutes of its meetings and report the same to the Committee or the Board when required.
7. **Authority to Retain Advisers**: The Committee shall undertake an annual evaluation assessing its performance with respect to its purpose and its duties and tasks set forth in the Charter, which evaluation shall be reported to the Board. In addition, the Committee shall lead the Board in an annual self-evaluation process, including the self-evaluation of each Board committee, and report its conclusions and any further recommendations to the Board.

III. Meeting and Procedures

The Committee shall convene at least four times each year. A majority of the Committee members shall be present to constitute a quorum for the transaction of the Committee's business. The Committee shall report regularly to the full Board with respect to its activities.

IV. Roles and Responsibilities

The following shall be the common recurring duties and responsibilities of the Committee in carrying out its oversight functions. These duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law or stock exchange listing standard.

i. Annually, the committee shall assess the size and composition of the Board in light of the operating requirements of the Company and existing attitudes and trends.
ii. The Committee shall develop membership qualifications for the Board of Directors and all board committees.
iii. The Committee shall monitor compliance with the Board and board committee membership criteria.
iv. Annually, the Committee shall review and recommend directors for continued service as required based on evolving needs of the Company and existing attitudes and trends.
v. The Committee shall coordinate and assist management and the Board of Directors in recruiting new members to the Board.
vi. Annually, the Committee and the Board shall evaluate the performance of the Chairman of the Board and CEO. To conduct this review, the Chairpersons of this Committee and of the HR and Compensation Committee shall gather and consolidate input from all directors in executive session, and then based on the factors set forth in the Company's Corporate Governance Guidelines as well as such other factors as are deemed appropriate, such Chairpersons shall present the results of the review to the Board and to the Chairman and CEO in a private feedback session.
vii. The Committee shall investigate suggestions for candidates for membership on the Board, including shareowners and nominations and shall recommend prospective directors, as required, to provide an appropriate balance of knowledge, experience, and capability on the Board.
viii. The Committee shall identify best practices and develop and recommend corporate governance principles applicable to the Company.
ix. The Committee shall review proposed changes to the Company's charter or by-laws, or Board Committee charters, and make recommendations to the Board.
x. The Committee shall assess periodically and recommend action with respect to shareowner rights plans or other shareowner protections.
xi. The Committee shall recommend Board committee assignments.
xii. The Committee shall review and approve any employee standing for election for outside for-profit boards of directors.
xiii. The Committee shall review governance-related shareowner proposals and recommend board responses.

xiv. The Chairperson of the Committee shall receive communications directed to nonmanagement directors.

xv. The Committee shall oversee the evaluation of the Board and management.

xvi. The Committee shall conduct a preliminary review of director independence and the financial literacy and expertise of Audit Committee members in order to assist the Board in its determinations relating to such matters.

xvii. The Committee shall review claims for permissive indemnification provided that the Committee may delegate to such employee or employees of the Company as it deems appropriate such claims that (i) are in the ordinary course of business, (ii) do not involve a material financial commitment by the Company, and (iii) do not involve executive officers or directors of the Company.

Appendix 12
Sample Charter of Remuneration Committee

I. Purpose

The purpose of the HR and Compensation Committee (the "Committee") of the Board of Directors (the "Board") of XYZ Company ("XYZ") is to discharge the responsibilities of the Board relating to compensation of XYZ's executives and directors; to produce an annual report on executive compensation for inclusion in XYZ's proxy statement (in accordance with applicable rules and regulations); to provide general oversight of XYZ's compensation structure including equity compensation plans and benefits programs; to review and provide guidance on XYZ's HR programs such as its global workforce programs, talent review and leadership development, and best-place-to-work initiatives; and to perform the specific duties and responsibilities set forth herein.

II. Membership

The Committee shall consist of at least three members, consisting entirely of independent directors, and shall designate one member as Chairperson. Committee members shall be appointed and may be removed by the Board of Directors upon the recommendation of the Nominating and Governance Committee.

III. Meetings and Procedures

The Committee will meet as often as may be deemed necessary or appropriate in its judgment, but in no event shall the Committee convene fewer than four times per year. The Committee may meet either in person or telephonically and at such times and places as the Committee determines. The majority of the members of the

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Committee shall be present to constitute a quorum for the transaction of XYZ's business. The Committee shall report regularly to the full Board with respect to its activities. As a matter of practice, the Committee expects to discuss significant matters, as determined by the Committee, with the full Board prior to taking final action on such matters.

IV. Outside Advisors

The Committee will have the authority to retain at the expense of XYZ such outside compensation consultants, counsel, and other experts and advisors as it determines is appropriate to assist it in the full performance of its functions, including sole authority to retain and terminate any compensation consultant used to assist the Committee in the evaluation of director, CEO, or senior executive compensation, and to approve the consultant's fees and other retention terms.

V. Duties and Responsibilities

1. **Evaluate Human Resource and Compensation Strategies**: The Committee will oversee and evaluate XYZ's overall human resources and compensation structure, policies, and programs and assess whether these establish appropriate incentives and leadership development for management and other employees. The Committee will oversee the Company's total rewards program in order to attract and retain key talent and promote XYZ's best-place-to-work initiative.
2. **Monitor Leadership Development**: The Committee will review the leadership development process for senior management positions and ensure that appropriate compensation, incentive, and other programs are in place in order to promote such development.
3. **Set Executive Compensation**: The Committee will review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer (the "CEO") and other executive officers of XYZ, evaluate the performance of the CEO and other executive officers in light of those goals and objectives, and approve their annual compensation levels including salaries, bonuses, stock options, other stock incentive awards, and long-term cash incentive awards based on this evaluation. In addition, the Committee may, in its discretion, review and act upon management proposals to designate key employees to receive stock options and stock or other bonuses.
4. **Approve Employment Agreements**: The Committee will review and approve employment agreements and severance for the CEO and other executive officers, including change-in-control provisions, plans, or agreements.
5. **External Reporting of Compensation Matters**: The Committee will make an annual report on executive compensation in XYZ's proxy statement.

6. **Oversight of Equity-Based and Incentive Compensation Plans**: The Committee will supervise and administer XYZ's incentive compensation, stock option, stock appreciation rights, and service award programs and may approve, amend, modify, interpret, or ratify the terms of, or terminate, any such plan to the extent that such action does not require stockholder approval; make recommendations to the Board with respect to incentive compensation plans and equity-based plans as appropriate.
7. **Oversight of Employee Benefit Plans**: The Committee will monitor the effectiveness of non-equity-based benefit plan offerings, in particular benefit offerings and perquisites pertaining to executives, and will review and approve any new material employee benefit plan or change to an existing plan that creates a material financial commitment by XYZ. In its discretion, the Committee may otherwise approve, amend, modify, ratify, or interpret the terms of, or terminate, any non-equity-based benefit plan or delegate such authority to the extent set forth in Section VI below.
8. **Monitor Workforce Management Programs**: The Committee will monitor the effectiveness of workforce management programs that are global in scope, including global restructuring programs.
9. **Set Director Compensation**: The Committee will review the compensation of directors for service on the Board and its committees and recommend to the Board the annual retainer and Chairperson's fees and Board and Committee meeting fees.
10. **Monitor Director and Executive Stock Ownership**: The Committee will monitor compliance by executive officers and directors with XYZ's stock ownership guidelines and periodically review such guidelines.
11. **Perform Annual Evaluation**: The Committee will annually evaluate the performance of the Committee and the adequacy of the Committee's charter.
12. **General**: The Committee will perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee deems appropriate.

VI. Delegations

The Committee may delegate any of the foregoing duties and responsibilities to a subcommittee of the Committee consisting of not less than two members of the Committee. In addition, the Committee may delegate to one or more individuals the administration of equity incentive or employee benefit plans, unless otherwise prohibited by law. Any such delegation may be revoked by the Committee at any time.

Appendix 13
Corporate Governance Disclosures

The company must disclose the following items in its annual report, in addition to any disclosures required by applicable industry regulatory bodies:

Ownership of Shares

i. Distribution of ownership by nationality
ii. Distribution of ownership by size of shareholder
iii. Ownership by Government
iv. Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders', or other agreements among them relating to acting in concert and of any other direct and indirect relationships among them or with the Company or other shareholders

Board, Board Members, and Management

i. Board's functions—rather than general statements (which could be disclosed simply as the Board's legal obligations under the law) the "mandate" of the Board must be set out
ii. The types of material transactions that require board approval
iii. Names, their capacity of representation, and detailed information about the directors, including directorships of other boards, positions, qualifications, and experience (must describe each director as executive or nonexecutive)
iv. Number and names of independent members
v. Board terms and the start date of each term
vi. What the Board does to induct/educate/orient new directors
vii. Director's ownership of shares

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viii. Election system of directors and any termination arrangements
ix. Director's trading of company shares during the year
x. Meeting dates and number of meetings held during the year
xi. Attendance of directors at each meeting
xii. Remuneration policy and remuneration of individual members, divided into siting fees and other remuneration (split between performance and non-performance based)
xiii. List of senior managers and profile of each
xiv. Shareholding of senior managers
xv. Remuneration paid to each person in the executive management divided in each case into salaries, perquisites, bonuses, gratuities, pensions, and any other components
xvi. Details of stock options and performance-linked incentives available to executives
xvii. Whether the Board has adopted a written code of ethical business conduct, and if so the text of that Code and a statement of how the Board monitors compliance

Committees

i. Names of the board committees
ii. Functions of each committee
iii. Names of each director of each committee divided into independent and non-independent
iv. Minimum number of meetings per year
v. Actual number of meetings
vi. Attendance of committees' members
vii. Members' remuneration (per member)
viii. Work of committees and any significant issues arising during the period

Corporate Governance

i. Separate section in the annual report
ii. Reference to corporate governance code and guidelines of the Company
iii. Changes on the corporate governance guidelines that took place during the year
iv. The level of compliance with corporate governance code or an explanation in respect of any noncompliance (with reference to the specific sections)

Auditors

i. The charters and a list of members of the audit (external and internal; financial and nonfinancial), Nominating, and Remuneration Committees of the board
ii. Audit fees
iii. Non-audit services provided by the External Auditor and fees
iv. Reasons for any switching of auditors and reappointing of auditors

Conflict of Interest

i. Related party transactions
ii. Approval process for related party transactions
iii. Any issues on conflicts of interest arising must be reported
iv. Describe any steps the Board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest

Other

i. Means of communication with shareholders and investors
ii. Separate report on Management Discussion and Analysis. This must identify and comment on the management of principal risks and uncertainties faced by the business
iii. Review of internal control processes and procedures
iv. Announcements of financial results must be in line with International Financial Reporting Standards and must include at least the following:

   a. Balance sheet, income statement, cash flow statement, and changes in shareholders' equity
   b. External Auditor
   c. External Auditor's signature date
   d. Board approval date

The directors' responsibility with regard to the preparation of financial statements should be set out.

Board of directors—whether or not the Board, its committees, and individual directors are regularly assessed with respect to their effectiveness and contribution.

Appendix 14
Sample Charter of Corporate Governance Committee

I. Purpose

The primary purpose of the Corporate Governance Committee is to assist the Board in shaping and monitoring the corporate governance policies and practices of the Company and evaluating compliance therewith.

II. Responsibilities

The responsibilities of Corporate Governance Committee shall include the following:

a. Review and assess the adequacy of the Company's policies and practices on corporate governance, including the Corporate Governance Guidelines of the company and any board meetings policies, and recommend any proposed changes to the Board for approval.
b. Review the Company's business practices, particularly as they relate to preserving the good reputation of the Company.
c. Review the appropriateness of the size of the Board relative to its various responsibilities and make recommendations to the Board as proper or necessary.
d. Develop appropriate criteria and make recommendations to the Board regarding the independence of directors and nominees as may be necessary or proper.
e. Recommend to the Board the number, identity, and responsibilities of board committees and the Chairman and members of each Committee. This shall include advising the Board on Committee appointments and removal from committees and rotation of committee members and chairs.
f. Review the adequacy of the charters adopted by each committee of the board and recommend changes as necessary.

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g. Assist the Board in developing criteria for identifying and selecting qualified individuals who may be nominated for election to serve on board of directors of subsidiaries of the Company.
h. Evaluate and recommend to the Board any changes or updates to the board policy on nomination of directors to boards of directors of subsidiaries of the Company.
i. Periodically review and recommend to the Board the compensation structure for board or committee services and other applicable directors-related policies, including retirement and indemnification issues.
j. Periodically assess the effectiveness of the Board of Directors in meeting its responsibilities, representing the long-term interests of stockholders.
k. Report annually to the Board with an assessment of the Board's performance.
l. To review management succession plans.
m. Conduct an annual review of the Corporate Governance Committee's performance and report the results to the Board. Periodically assess the adequacy of its charter and recommend changes to the Board as needed.
n. Perform any other duties and responsibilities expressly delegated to the Corporate Governance Committee by the Board from time to time.
o. Receive notification by directors of intention to serve on additional duties outside the Board.

III. Composition

The Corporate Governance Committee shall be comprised of three (3) independent directors. The members of the Corporate Governance Committee are appointed by the Board of Directors.

IV. Meetings

The Corporate Governance Committee shall meet as circumstances dictate. The Corporate Governance Committee may ask members of management or others to attend the meeting and provide pertinent information as required. Quorum will consist of two (2) members.

Appendix 15
Sample Code of Conduct Policy

I. Statement of Policy

It is a fundamental policy of the Company to conduct its operations with honesty and integrity and in accordance with the highest legal and ethical standards. The Code of Conduct Policy set forth in this statement provides general guidance. Since it is not possible to provide guidance for all situations that may arise, it is, therefore, the individual employee's responsibility to exercise good judgment and to act in a manner that will favorably reflect upon the Company's values. Employees shall comply with the spirit as well as the letter of this Policy. Employees shall not attempt to achieve indirectly, through the use of agents or other intermediaries, what is forbidden directly.

II. Applicability

The Policy applies to all employees of the Company.

III. Implementation

All managers of the Company will be required to ensure that:

- They have personally read and understand the Policies.
- They have taken appropriate steps to bring the Policies to the attention of each employee under their supervision.
- All under their area of responsibility are in adherence to these policies and know of no violations by employees under their supervision except violations that have been reported.

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The Internal Audit Department will determine compliance with the Policies as part of its standard auditing procedures. Compliance with the Policy is essential. Violations will result in disciplinary action, including dismissal where warranted.

IV. Questionable or Improper Payments or Use of the Company's Assets

The use of any funds or assets of the Company for any unlawful or improper purpose is strictly prohibited.Employees of the Company shall not accept any bribes, kickbacks, or any other form of financial or in-kind benefit for taking any action in their role as the Company's employee. Commercial business entertainment, which is reasonable in nature, frequency, and cost, is permitted within approved budget.

V. Books and Records of the Company

The Company takes very seriously its obligation to comply with the highest standards of financial accounting and reporting. Staff members, in addition to complying with all applicable laws, rules, and regulations, to the extent applicable to their duties must:

- Endeavor to ensure full, fair, timely, accurate, and understandable disclosure in the Company's filings
- Record or participate in the recording of entries in the Company's books and records that are accurate to the best of their knowledge
- Comply with the Company's disclosure controls and procedures and internal controls and procedures for financial reporting
- Provide information that is accurate, complete, objective, relevant, timely, and understandable

VI. Payment of Amounts Due to Customers, Agents, or Distributors

All commission, distributor, or agency arrangements must be made in writing and must provide for services to be performed and must be based on a fee that reflects reasonable and fair value for the services involved. All payments for commissions, discounts, or rebates must be made by check, draft, or transfer (not in cash) and shall be fully disclosed in the accounting records maintained by the controller's offices. Proper documentation of contracts and agreements shall be maintained.

VII. Respect for All Individuals

At the Company, we respect the mix of our employees from around the world. Employment decisions are based on factors such as qualification, talent potential, and achievements and always in accordance with the laws and regulations of __________ or the laws of any jurisdiction in which the employees operate. Everyone must always behave appropriately and professionally with his colleagues, inside and outside the office. Abusive or offensive conduct is unacceptable at all levels. The Company has no tolerance for any personal insult or derogatory comments based on racial, ethnic characteristics or religious beliefs. Offensive remarks concerning a person are not acceptable in our work environment. Threats or acts of violence or physical intimidation are strictly forbidden. The management encourages employees to speak out if a co-worker's conduct makes for an uncomfortable environment or affects daily work.

VIII. Conflicts of Interest

Employees of the Company have a full-time responsibility to the Company. A potential or actual conflict of interest occurs whenever an employee is in a position to influence a decision that may result in a personal gain for himself/herself, any other employee, or an immediate family member. (For the purposes of this policy, "immediate family" means a staff member's spouse, parents, siblings, children, and in-laws.) An employee may not engage in activities that create a conflict between the interests of the Company and those of the employee. In certain circumstances, the Company may also be concerned about the appearance of a conflict of interest, even if no actual conflict has occurred. Staff members with responsibility for issuing or approving orders for the purchase of supplies, equipment, or transportation, or for contracts for employment or services for the Company, may not have a significant interest in any supplier of supplies or services to the Company. Neither may staff members' immediate family have such interest. ("Significant interest" means any financial interest that may influence the judgment of the staff member in conducting the work of the Company.)

IX. Acceptance of Gifts

Except for business and social invitations that are in keeping with good business ethics, all Company's staff may not accept commissions, gifts, payments, entertainment, services, loans, or promises of future benefits from any person or entity relating to his/her assignment as directed by the company. All gifts must be reported to the direct supervisor of such person receiving the gift who will decide on an appropriate disposition of the gift. The report should be in writing and should provide the name of the giver, the name of the recipient, description of the gift item, and its estimated market value. A copy of the report should be filed with the CEO and Head of Internal Audit. This procedure shall be applied so as to minimize its effect on the personal affairs of employees consistent with the protection of the Company's interests. No employee should place himself/herself in a position that gives rise to even the appearance of a conflict of interest.

X. Safety, Health, and Environment

All employees are expected to comply in a responsible way with all care, safety, health and environment, and security policies established by the Company for maintaining a safe workplace within the Company. Everyone without exception is responsible for reporting immediately to the Management any accident, injury, or unsafe working condition. The Company strongly believes that safety, health, and welfare of its employees are a priority and part of its ethical commitment towards them. The protection of the environment within which the company operates is an important commitment too.

XI. Misuse of Communication Systems

The Company's communications systems, including telephones, mobile phones, peripherals, Internet, and e-mail systems, are provided to employees for professional purposes to help them do their job. They are not to be used for viewing, receiving, or transmitting any material or information which violates the laws, regulations, customs, and traditions of the country or other relevant jurisdictions including, without limitation, "pornographic," "political," and "harmful." This, of course, also applies to any client or vendor communications system to which the employee may be granted access as a representative of the company. No pirated or counterfeited software is allowed for use at offices of the Company. While it is understood that there could be need for limited and occasional use of communication systems for personal purposes, employees must be aware that all messages sent and received on their communication systems may be monitored, reviewed, and stored. They should not have any expectation of privacy with respect to these communications. Employees are responsible for familiarizing themselves with the more detailed policies that are separate from this Code, regarding the use of the company's information systems, software, and Internet access that are made available in order for them to carry out their tasks and activities.

XII. Confidentiality: Disclosure of Information

Staff members are expected to exercise the utmost discretion in regard to all matters of the Company. They may not communicate any information known to them by reason of their position that has not been made public, except as may be necessary in the course of their duties or by authorization of the Board. Nor shall they at any time use such information for private advantage. These obligations are not modified by participation in any activities described above and do not cease upon separation from the Company.

XIII. Compliance with Laws and Regulations

A variety of laws and regulations apply to the Company, the violation of which may carry civil or criminal penalties for the Company and/or the individual. It is the responsibility of each staff member to comply with all such laws and regulations. Staff members are also required to observe the laws and regulations of countries in which they travel on company's business, including each country's currency exchange regulations.

XIV. Reporting a Violation of the Code

In the event that an employee has been involved in a possible violation of the Code, or if he/she witnesses or learns of a potential violation of the Code, he/she must report this immediately to his/her manager or MD who in turn will take appropriate action(s). The employee must also fully and truthfully cooperate in any investigation the Company conducts. Failure to do so could be cause for a disciplinary action, including termination of employment.

XV. Outside Employment

It is the policy of the company to prohibit its employees from accepting a salaried employment with any other company. The employment contracts of the company specifically document this prohibition and any violation of it will subject the concerned member of staff for strict disciplinary action, including termination of employment.

XVI. Employment/Favoritism of Relatives

The Company does not ban the employment of relatives in a strict way. On the other hand, it does not wish to be party to the relations linking work colleagues. However, precautions should be taken to ensure that individuals are not affected or appear to be affected by close personal relations. The Company defines the term "close personal relations" to include spouses, fiancés, fiancées, children, grandchildren, siblings, parents, grandfathers and grandmothers, aunts, uncles, nephews and nieces and their spouses, and any other relations which would affect the employee's ability to take unbiased and independent decisions on the company's behalf. The Company's employees may not directly oversee or take part in the decisions related to the appointment, retention, promotion, or remuneration of any of the other employees who are linked to them through close and strong relationship. In addition, the company's employees who have strong personal relationship may not work in the same department, section, or work group without obtaining the explicit and written approval of the Human Resources Department in respect of the suitable work unit and the approval of a senior executive officer in respect of the employee of higher rank in the relationship.

Acknowledgement and Declaration

I acknowledge that I received a copy of <COMPANY-NAME> Code of Business Conduct dated ____________ ("the Code"), that I have read the Code, and that I understand it. I will comply with the code. If I learn that there has been a violation of the code, I will contact my immediate manager or the Human Resources Department.

Dated: ______________

Employee's Signature: ______________

Employee's Name: ______________

Appendix 16
Sample Conflict of Interest Policy

Definitions

a. Conflict of interest means "a staff member who commits deliberate acts or practices or certain activities that incur potential harm to the Company or puts himself/herself in a position of advantage/gain or being exposed to negligence against the Company's interest versus his/her personal interests."
b. Connected person means "employee's spouse, child, blood relation, or member of spouse's family and any company, partnership, or family trust (where a member of the family is an executor) in which any of these 'persons' may have a direct or indirect interest."
c. Direct and indirect interest means "any directorship or equity interest (5% or more) in a company, partnership, or business undertaking which is held by the employee (direct) or a connected person (indirect)."

Conflict of Interest

Some of the situations where conflicts of interest may occur include:

a. Facilities are granted or contemplated by the Company to a connected person in which the employee has a direct or indirect interest.
b. Facilities are granted by another organization to an employee or connected person in which the employee has a direct or indirect interest.
c. Direct or indirect interests of the employee in connected persons, which provide goods or services to the Company.
d. Gifts to employees by clients of the Company.
e. Confidential information relating to the clients of the Company which is available to an employee of the Company.

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Policy

The Management being fully confident of loyalties and sense of integrity of all of their staff advises that such practices which are in conflict with the Company's interest shall not be practiced by any staff member, which are more specifically mentioned hereunder:

a. Exploiting official working hours in handling and following up their own personal business or any other business irrelevant to the Company.
b. Using office work materials and the Company's facilities such as machines, equipment, and communication media in pursuit of personal business.
c. Using official capacity in achieving a financial/other gain or interest outside the Company which could not be achieved otherwise.
d. Preferring one supplier to another due to tie of kin or common business linking between the supplier and the concerned employee or one of his/her relatives or extended family up to the second generation.
e. Accepting gifts in kind or cash amounts or benefits from suppliers or customers or brokers against service offered to the supplier or customer, whether offered by the employee himself/herself or through another middleman employee.
f. Participating in conducting a study for granting credit facilities to one of the Company's customers having an interest or tie of kin or extended family up to the second generation with the employee.
g. Staff using his/her influence, authority, or relations in the Company for granting credit facilities to a customer in conflict with the practiced rules and principles in order to accomplish a financial/other gain for him/her or for anyone, of his/her relatives due to tie of kin or relationship up to the second generation.
h. Disclosing data or decisions or negotiations while the process of taking decisions is being made, to anyone for use in achieving self-interest inside or outside the Company, whether this act has been done with or without payment (in cash or in kind).
i. Participating in business, whether this practice is full or part time, with or without payment (i.e., cash or in kind).
j. Being a partner in business using his/her influence or authority in achieving interest for such business that may incur potential harm to the Company.
k. Concealing of facts, evidence of such actions, or breaches of rules shall expose the employee to disciplinary action or lead the Company to termination of service.

Procedure

a. Each employee is required to complete the declaration in the form copied below.
b. Notwithstanding the initial declaration made by the employee, the employee is required to inform the Company where any changed in his circumstances would require an amendment to the declaration or could be considered to be in conflict with the spirit of the company's policy.

Acknowledgment

I, ____________________ of ____________________, a staff of ________________, have read and fully understood the above-stated requirements concerning conflict of interest rules by the Company and confirm to abide by all the rules and regulations of the Company including such amendments as may be effected from time to time.

Signature: ______________________________

Dated: ______________________________

Declaration of Conflict of Interest

I, ________________________________, confirm that I have read the company's policy of Conflicts of Interest and have understood the contents thereof and DECLARE that:

1. I am not aware of any facility granted or contemplated by the company to a connected person in which I have a direct or indirect interest except as listed below:

   a. _____________
   b. _____________
   c. _____________

   And agree to declare to the bank any such interest of which I may become aware after the date of this declaration.

2. I, or any connected person, have not entered into any commitment which could be considered incompatible with my employment with or could impair the reputation of the Company.
3. I do not hold any directorship or any appointment in any capacity in any company or business organization or engage in any business enterprise through a connected person other than in the following charities, clubs, or associations (state whether in the capacity as a representative of the Company):

   a. _____________
   b. _____________
   c. _____________

4. I am aware of the Company's policy regarding gifts.
5. I or any connected person do not hold any securities issued by clients of the organizations which provide services to the Company other than listed below:

   a. _____________
   b. _____________
   c. _____________

6. I agree to inform the Company in writing of any changes in my circumstances or the circumstances of a connected person which may require an amendment to this declaration and to inform the Company of any interest whether potential or otherwise which could be in conflict with the spirit of the Company's policy.

Signed ______________________ Date ____________

Appendix 17
Sample Statement of Ethics

Definition

Unethical practice means a situation where "a member of the Board of Directors commits deliberate acts and practices or undertakes certain activities that incur potential harm to the Company or puts him/her in a position of advantage/gain or neglects the Company's interest due to his/her personal interest."

Policy

The Company's Chairman being fully confident of the loyalty and sense of integrity of each member of the Board of Directors advises that in the interest of good governance, such practices which are in conflict with the Company's interest shall not be practiced by any member of the Board, which are more specifically mentioned hereunder:

a. Using office work materials and the Company's staff and facilities such as machines, equipment, and communication media in pursuit of personal business.
b. Using his/her capacity in achieving a financial/other gain or interest outside the Company which could not be achieved otherwise.
c. Participating in conducting a study for granting credit facilities to one of the Company's customers having an interest or tie of kin or extended family up to the second generation with the member of the Board.
d. Using his/her influence, authority, or contacts in the Company, for granting credit facilities to a customer in conflict with the practiced rules and principles in order to accomplish a financial/other gain for him/her or for anyone of his/her relatives due to tie of kin or relationship up to the second generation or to give benefit to any business colleague/associate existing or potential or awarding a contract to them of any form.

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e. Disclosing data or decisions or negotiations being made in the process of taking decisions, to anyone for use in achieving self-interest inside or outside the Company, whether this act has been done with or without payment (in cash or in kind).
f. Practicing business, other than business of the Company, whether this business is full or part time, with or without payment (in cash or in kind) without prior notification of the same to the Company.
g. Being a partner in existing/potential business and using his/her influence or authority in the Company to further the interest of such business or indeed the business of personal/professional associates.

Name : ______________________

Signature : ______________________

Dated : ______________________

Appendix 18
Sample Whistle-Blowing Policy

Prepared By: ______________

Approved By: ______________

Revision Date: ______________

Effective Date: ______________

I. Purpose

This policy establishes the standards and procedures to ensure that accounting and audit-related complaints handling complies with management's and the Audit Committee's objectives.

II. Scope

The policy applies to all domestic and international offices and subsidiaries of the Company.

III. Procedures

A. Responsibilities of Audit Committee with Respect to Specified Complaints

1. The Audit Committee shall receive, retain, investigate, and act on complaints and concerns of employees regarding questionable accounting, internal accounting controls, and auditing matters, including those regarding the circumvention or

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attempted circumvention of internal accounting controls or that would otherwise constitute a violation of the Company's accounting policies (an "Accounting Allegation").

2. At the discretion of the Audit Committee, responsibilities of the Audit Committee created by these procedures may be delegated to any member of the Audit Committee or to a subcommittee of the Audit Committee.

B. Procedures for Receiving Accounting Allegations

1. Any Accounting Allegation that is made directly to management, whether openly, confidentially, or anonymously, shall be promptly reported to the Audit Committee.
2. Each Accounting Allegation forwarded to the Audit Committee by management and each Accounting Allegation that is made directly to the Audit Committee, whether openly, confidentially, or anonymously, shall be reviewed by the Audit Committee, who may, at their discretion, consult with any member of management or employee whom they believe would have appropriate expertise or information to assist the Audit Committee. The Audit Committee shall determine whether the Audit Committee or management should investigate the Accounting Allegation, taking into account the considerations set forth in Section C below.

a. If the Audit Committee determines that management should investigate the Accounting Allegation, the Audit Committee will notify the General Counsel in writing of that conclusion. Management shall thereafter promptly investigate the Accounting Allegation and shall report the results of its investigation, in writing, to the Audit Committee. Management shall be free in its discretion to engage outside auditors, counsel, or other experts to assist in the investigation and in the analysis of results.

b. If the Audit Committee determines that it should investigate the Accounting Allegation, the Audit Committee shall promptly determine what professional assistance, if any, it needs in order to conduct the investigation. The Audit Committee shall be free in its discretion to engage outside auditors, counsel, or other experts to assist in the investigation and in the analysis of results.

C. Considerations Relative to Whether the Audit Committee or Management Should Investigate an Accounting Allegation

In determining whether management or the Audit Committee should investigate an Accounting Allegation, the Audit Committee shall consider, among any other factors that are appropriate under the circumstances, the following:

1. Who is the alleged wrongdoer? If an executive officer, senior financial officer, or other high management official is alleged to have engaged in wrongdoing, that factor alone may militate in favor of the Audit Committee conducting the investigation.

2. How serious is the alleged wrongdoing? The more serious the alleged wrongdoing, the more appropriate it is that the Audit Committee should undertake the investigation. If the alleged wrongdoing may constitute a crime involving the integrity of the financial statements of the Company, that factor alone may militate in favor of the Audit Committee conducting the investigation.
3. How credible is the allegation of wrongdoing? The more credible the allegation, the more appropriate that the Audit Committee should undertake the investigation. In assessing credibility, the Audit Committee should consider all facts surrounding the allegation, including but not limited to whether similar allegations have been made in the press or by analysts.

IV. Protection of Whistle-blowers

Consistent with the policies of the Company, the Audit Committee shall not retaliate and shall not tolerate any retaliation by management or any other person or group, directly or indirectly, against anyone who, in good faith, makes an Accounting Allegation or provides assistance to the Audit Committee, management, or any other person or group, including any governmental, regulatory, or law enforcement body, investigating an Accounting Allegation. The Audit Committee shall not reveal the identity of any person who makes a good faith Accounting Allegation and who asks that his/her identity as the person who made such Accounting Allegation remain confidential and shall not make any effort, or tolerate any effort made by any other person or group, to ascertain the identity of any person who makes a good faith Accounting Allegation anonymously.

V. Records

The Audit Committee shall retain for a period of seven years all records relating to any Accounting Allegation and to the investigation of any such Accounting Allegation.

VI. Procedures for Making Complaints

In addition to any other avenue available to an employee, any employee may report to the Audit Committee openly, confidentially, or anonymously any Accounting Allegation. Accounting Allegations can be made orally or in writing to ____________. Such reports can also be made anonymously by calling the [ ] hotline at _____ at any time. The toll-free line is managed by an outside, independent service provider and allows anyone to make an Accounting Allegation without divulging his/her name. The hotline service provider is required to give the information provided in the Accounting Allegation to management or, if requested by the individual making the Accounting Allegation, the Audit Committee as promptly as practicable.

Appendix 19
OECD Principles of Corporate Governance – 2004

I. Ensuring the Basis for an Effective Corporate Governance Framework. The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

A. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets.
B. The legal and regulatory requirements that affect corporate governance practices in a jurisdiction should be consistent with the rule of law, transparent and enforceable.
C. The division of responsibilities among different authorities in a jurisdiction should be clearly articulated and ensure that the public interest is served.
D. Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfill their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.

II. The Rights of Shareholders and Key Ownership Functions. The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

A. Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect and remove members of the board; and 6) share in the profits of the Company.
B. Shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as: 1) amendments to the statutes, or articles of incorporation or similar governing documents of the Company; 2) the authorization of additional shares; and 3)

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extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the Company.

C. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings:

   1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.
   2. Shareholders should have the opportunity to ask questions of the Board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.
   3. Effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. Shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.
   4. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

D. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

E. Corporate control in an efficient and transparent manner:

   1. The rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse.
   2. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
   3. Anti-take-over devices should not be used to shield management and the Board from accountability.

F. The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated.

   1. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights.
   2. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

G. Shareholders, including institutional shareholders, should be allowed to consult with each other on issues concerning their basic shareholder rights as defined in the Principles, subject to exceptions to prevent abuse.

III. The Equitable Treatment of Shareholders. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

A. All shareholders of the same series of a class should be treated equally:

1. Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected.
2. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
3. Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
4. Impediments to cross border voting should be eliminated.
5. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.

B. Insider trading and abusive self-dealing should be prohibited.
C. Members of the Board and key executives should be required to disclose to the Board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the Company.

IV. The Role of Stakeholders in Corporate Governance; The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage the active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially-sound enterprises.

A. The rights of stakeholders that are established by law or through mutual agreements are to be respected.
B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.
C. Performance-enhancing mechanisms for employee participation should be permitted to develop.
D. Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis.

E. Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the Board and their rights should not be compromised for doing this.
F. The corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights.

V. Disclosure and Transparency. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the Company, including the financial situation, performance, ownership, and governance of the Company.

A. Disclosure should include, but not be limited to, material information on:

1. The financial and operating results of the Company.
2. Company objectives.
3. Major share ownership and voting rights.
4. Remuneration policy for members of the Board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the Board.
5. Related party transactions.
6. Foreseeable risk factors.
7. Issues regarding employees and other stakeholders.
8. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

B. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.
C. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the Board and shareholders that the financial statements fairly represent the financial position and performance of the Company in all material respects.
D. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.
E. Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users.
F. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

VI. The Responsibilities of the Board. The corporate governance framework should ensure the strategicguidance of the Company, the effective monitoring of management by the Board, and the Board's accountability to the Company and the shareholders.

A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and the shareholders.

B. Where board decisions may affect different shareholder groups differently, the Board should treat all shareholders fairly.
C. The Board should apply high ethical standards. It should take into account the interests of stakeholders.
D. The Board should fulfill certain key functions, including:

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the Company's governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer-term interests of the Company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
8. Overseeing the process of disclosure and communications.

E. The Board should be able to exercise objective independent judgment on corporate affairs:

1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.
2. When committees of the Board are established, their mandate, composition and working procedures should be well defined and disclosed by the Board.
3. Board members should be able to commit themselves effectively to their responsibilities.

F. In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

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