

**14th Pacific Economic Cooperation Council
General Meeting
Corporate Governance and Related Reforms for East Asia**

***Developing a Culture of Corporate Governance – the Role of Director
Education and Training***

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It is my very great pleasure to be with you today to provide an established directors' institute view of the challenges faced in East Asia in enhancing corporate governance in the region.

I have chosen to concentrate my remarks on the role of director education and training in developing a culture of corporate governance. I believe that there is a need to focus on establishing sustainable Institutes of Directors in the Asian region. These Institutes should be capable of providing a range of education courses for directors and establishing best practice guidelines in addition to acting as an effective directors' advocate. I trust that the experiences of the Australian Institute of Company Directors in this regard will provide some practical guidance and encouragement to others who see the economic and community benefits of good corporate governance.

Background

The AICD was formed in 1990 from a merger of the Company Directors' Association of Australia and the Institute of Directors in Australia. The IoD in Australia was established in 1961 and the CDA in 1982. At the time of the merger the new organisation had nearly 8,000 members.

Today the AICD has 16,000 members and over 70 staff. We have an annual turnover of A\$ 14 million or about US \$7 million.

Mission and Objectives

The mission of the AICD is to be Australia's pre-eminent professional organisation for company directors providing education, information and advocacy.

The objectives of the AICD are to:

1. meet the information and education needs of directors
2. promote excellence in director performance
3. provide a valued director network
4. attract and retain members
5. be a successful advocate for director issues
6. be a financially sound, efficient and caring organisation.

Principal Activities

In pursuing our mission and objectives our principal activities are:

- provision of a comprehensive range of education courses and professional development activities
- the development of policies to represent directors' interests to governments, regulators and the community
- provision of information services and networking opportunities to assist directors to more effectively operate
- development of best practice standards to raise the level of corporate governance in Australia.

Through these activities we seek to develop amongst our members and the community generally, a commitment to the fundamental principles of corporate governance. This commitment to high standards of governance creates a culture of corporate governance in which all key participants including directors, management, shareholders and other stakeholders, accept the notion that good corporate governance is in their mutual best interests.

Challenges in establishing an Institute of Directors

There have been many challenges which faced the founders of the AICD and its formative bodies. The issues which are most relevant to others who would seek to develop a similar body are:

- acceptance that improved corporate governance is good for businesses, both large and small. This will underpin all the organisations activities including Codes of Conduct and other director performance-enhancing activities
- obtaining the backing and support of governments, regulators, market providers and the senior business community.
- development of education courses and professional development activities that are relevant to member needs
- attracting and retaining members through the provision of a valued directors' network and information flows.

Let me briefly discuss two key areas and our approach to each.

Corporate Governance

Corporate governance must be seen as an important driver of the economic wealth for shareholders, directors and managers.

The McKinsey Investor Opinion Survey 2000 found that :

- three-quarters of institutional investors said board practices were at least as important as financial performance
- over 80% of investors say that they would pay more for the shares of a well-governed company than those of a poorly governed company with the same profit performance
- the actual premium which they would pay for a well-governed company ranged from 18-27% depending on the country.

The principal characteristics of corporate governance are:

- transparency, i.e. disclosure of relevant financial and operational information and internal processes of management oversight and control
- the protection and enforceability of the rights and interests of all shareholders including minority and small shareholders
- directors who are capable of independently approving the corporation's strategy and major business plans and decisions, and of independently hiring management, monitoring their performance and integrity, and replacing them when necessary.

Globalisation has led to the convergence of governance principles internationally. In response, AICD's focus has extended also to encompass the international arena. AICD contributed private sector input to the development of the OECD Principles of Corporate Governance in 1998/99. These principles were being finalised as the financial crisis enveloped Asia, giving added emphasis to the need for sound corporate governance.

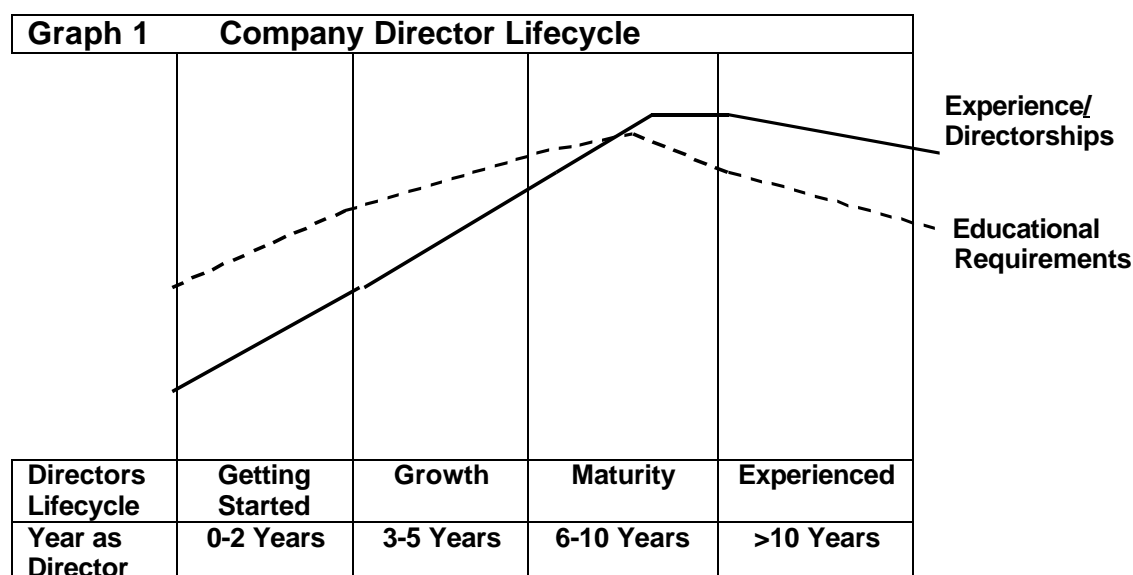
Education

The development of education courses which meet directors' needs at various stages of their "lifecycle" as a director has been a key activity of the AICD.

Much emphasis has been placed on corporate governance in Asia. However much of the discussion at forums and conferences tends to remain at the macro-economic level and little attention is given to the most important aspect of corporate governance, namely the practical training of directors on their role and responsibilities. This is a major shortcoming as the real importance of corporate governance is the practical focus on the way in which directors interact with management, investors and regulators. Unless greater attention is given to these practical day-to-day matters through education and training, it is unlikely that significant change in corporate practice and performance will be achieved. Without it, the macro-economic considerations are largely meaningless.

The AICD has for some time recognised through its Company Director Lifecycle concept that there is a requirement to continue to develop education programs that meet the needs of company directors on an ongoing basis.

The Company Director Lifecycle concept was adopted after detailed research of the AICD membership in 1998 and is illustrated below :



The curve shows the typical increase in experience of the individual director based on the number of years as a director and increases/decreases in board positions held and the perceived educational support required at each stage of the lifecycle.

The AICD currently has 15 core education courses which seek to address members' needs at various stages of the lifecycle. A list of our courses and their positioning in the directors lifecycle is appended. For example, our "flag ship" course, the *Company Directors Course*, which is provided as a 5-day residential program or a 10 evening session tutorial program, meets the needs of directors at the "getting started" and "growing" stages. Our *Good Governance Program* is targeted at the "growth" and "maturity" stages, whilst our *Compliance Update Program* and *The Role of the Chairman* courses are for the "maturity" and "experienced" phases of the director lifecycle.

The Need for active Institutes of Directors in Asia

There has been a tendency to focus on the introduction of corporate governance training courses without much consideration of the need for sustainable organisations which can deliver training on a continuing basis. There is limited advantage in introducing a one-off training course which has no follow-up to provide for directors' continuing education. The important point in establishing an Institute of Directors is to structure a sustainable organisation that can not only deliver an initial training program, but can also follow through in providing continuing lifelong education, establishing "best practice" standards and guidelines and in representing the interests of directors.

Corporate Governance in Context

Whilst corporate governance is important it should be seen in the context of its role in contributing to economic performance. Good corporate governance practices and standards will contribute to improved corporate performance, provide increased access to capital markets, more efficient financial markets and consequently improved competitiveness.

However unless sound corporate governance standards are also matched with high standards of institutional governance arrangements in an economy, then attempts to achieve good corporate governance standards will be continuously frustrated.

Future Challenges and Opportunities

We are all aware that global and local economic conditions will have a significant impact on the health of companies and businesses over the next two years. With difficult economic times we will have increased corporate failures and bankruptcies. With high profile corporate failures there will be inevitable questions raised about the state of corporate governance and the role of directors in discharging their responsibilities and duties to shareholders and the wider community.

This may lead to calls for the “licensing” of directors of companies, particularly those which are listed on Stock Exchanges, with the licensing arrangement requiring directors to have minimum education and experience requirements including completion of approved courses of director training. Such a move would both encourage the rapid development of Directors Institutes and also tax their resources to meet a sudden increase in demand for director education and training.

In the Australian context, given our stage of development, directors would resist regulatory licensing, preferring to have best practice guidelines and standards act as a “carrot” to move boardroom practice rather than the “stick” approach of licensing.

However in some countries in the Asian region a licensing regime may be appropriate, if not generally applied, then for key sectors of corporate activity such as banks and other financial institutions whose corporate performance is critical to the integrity of the economy and the community’s savings.

Conclusion

As globalisation of investment flows continues, the availability of capital from international markets will increasingly flow to those economies and companies which have sound governance standards.

Good corporate governance is not difficult – its principles are now well understood and accepted, what is required is for companies to demonstrate that they are actively pursuing a culture of corporate governance.

A commitment to director education and training must be seen as a key component of developing and maintaining this culture.

Ends

Appendix 1:
Lifecycle stage targeted by AICD Courses

Appendix 1

Appendix 1	Lifecycle Stage targetted by the course				Total
	Getting Started 0-2 Years	Growth 3-5 Years	Maturity 6-10 Years	Experienced >10 Years	
Courses currently offered by AICD					
Board Step	✓				
Ultimate Step	✓				
Commercial Negotiation	✓				
Powerful Speech & Presentation	✓				
New Director Program	✓				
Company Directors Course	✓	✓			
Fundamentals of Financial Statistics	✓	✓			
Skills Update		✓	✓	✓	
Compliance Update			✓	✓	
Board & CEO Assessment				✓	
Good Governance		✓	✓		
Role of the Chairman				✓	
Not for Profit					
Going Public					
Mergers & Acquisitions					