

CORPORATE GOVERNANCE SYSTEM AND RULES

The term *Corporate Governance* refers to the system by which companies are managed and governed. When formulating its corporate governance system, **integrity, transparency and sustainability** should be the key principles on which the organizations must focus and the system is structured in accordance with applicable general and specific regulations, as well as with the By-laws, the Code of Ethics, and the recommendations outlined in the Corporate Governance Code as well as internal regulations and best practice throughout the sector.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

From the above examples, we can draw some conclusions and formulate a short set of rules regarding best corporate governance practice. The principles underlying these rules are:

- Ethical approach - culture, society; organizational paradigm
- Balanced objectives - congruence of goals of all interested parties
- Each party plays his part - roles of key players: owners/directors/staff
- A decision-making process is in place which is based on a model reflecting the above giving due weight to all stakeholders
- Stakeholders are treated with equal concern - albeit some have greater weight than others
- Accountability and transparency: to all stakeholders

The principles of this approach are therefore framed in relation to the conventional way of looking at how a business should be properly run.

Our Five Golden Rules of best corporate governance practices are:

1. **Ethics**: a clearly ethical basis to the business
2. **Align Business Goals**: appropriate goals, arrived at through the creation of a suitable stakeholder decision making model
3. **Strategic management**: an effective strategy process which incorporates stakeholder value
4. **Organisation**: an organisation suitably structured to effect good corporate governance
5. **Reporting**: reporting systems structured to provide transparency and accountability

BEST CORPORATE GOVERNANCE PRACTICE = BEST MANAGEMENT PRACTICE

The regulatory approach to the subject would regard governance as something on its own, to do with ensuring a balance between the various interested parties in a company's affairs, or more particularly a way of making sure that the chairman or chief executive is under control, producing transparency in

reporting or curbing over-generous remuneration packages. This indeed is what the Cadbury recommendations and the subsequent reports and code are all about. However, as we express in the rest of this website, we regard this as much too limited a view of governance, and hence of best corporate governance practice.

The essence of success in business is:

- Having a clear and achievable goal
- Having a feasible strategy to achieve it
- Creating an organisation appropriate to deliver
- Having in place a reporting system to guide progress.

There are very many websites and publications advising on how to do this, and of course, this is what is described as good management.

Best corporate governance practice is about achieving the stakeholders' goal, and delivering success in an ethical way. Hence it follows that it must entail a holistic application of good management.

To demonstrate the totality, and the need for a holistic approach, we present below an illustration showing the pressures on a large organization.

COMMITMENT TO SUSTAINABILITY

Sustainability today could be in danger of becoming another buzzword. Many organizational concepts and solutions today exist mutually exclusive of each other, Corporate Social Responsibility, Corporate Governance, Strategic Planning, Disaster/Crisis Management. Solutions that mitigate certain components of organizational glitches, but separately do not provide the sustainability we seek. The solution needs to be comprehensive, and we find such under the umbrella of Sustainable Corporate Governance (SCG).

The scope of an enlargement of corporate governance towards "Sustainable Corporate Governance" depends...on the ability of corporations to reflexive self-regulation, sustainability must be integrated into core strategies and decisions of corporations in order to persist even in times of decreasing public interest and retreat of policy to selective issues.

Operating sustainably means creating value for stakeholders and using resources in such a way as to avoid compromising the needs of future generations, respecting the individual, the environment and society as a whole inspired by principles of correctness, transparency, honesty and integrity and adopting the highest standards and international guidelines in the management of its activities in all the contexts in which any organization operates. One should consider sustainability a driver in the process of continuous improvement that guarantees results over time, while reinforcing its business performance and reputation. It should also be committed to taking action aimed at promoting respect for people and their rights, the environment and, more generally, the broader interests of the communities in which it operates.

One should conduct its activities by taking full account of the interests of the stakeholders, aware that dialogue and shared objectives are the way to create reciprocal value. Through such activities, it also

contributes to the sustainable development of the countries in which the organization operates creating opportunities for people and local businesses. This guarantees the sustainability of activities through an articulated and cross-platform model that covers all corporate functions, focused on innovation and the achievement of long-term objectives and through the valuation and management of risks that helps to prevent and offset their effects.

A company justifies its existence only if they are looking for the long term benefit of the society where they operate. Everything we do in terms of Sustainability is aimed at giving to the Countries where we operate more than what we take. This means keeping an adequate level of spending in good times and in bad times. Technological, institutional and social innovation promotes economic development and international competitiveness, and can do much to reduce environmental burdens. Thus, innovation is an essential factor in the realization of the principles of sustainable development.

TRANSPARENCY – A MUST

Creating relationships that are based on **correctness, transparency and continuous dialogue** with stakeholders, in order to pursue shared objectives for the creation of value and opportunities for sustainable development. It is important to **inform and engages local communities** involved in its business activities, promoting dialogue in all phases of operational projects, with the aim of:

- Evaluating expectations regarding new projects,
- Sharing the process of evaluation of impacts on the territory,
- Planning action to mitigate eventual negative impacts,
- Identifying possibilities for the facilitation of local development.

In order to ensure access to information and the participation of the communities all associated companies have created a **special unit for community relations** to ensure that the legitimate expectations of the local communities in the pursuit and conduct of the company's business activities are given due consideration and to encourage mechanism for the adequate distribution of profits from extraction activities. Such involvements should be foreseen in each phase of the projects.

PEOPLE SAFETY, HEALTH, WELL BEING

Sustainability very much includes **high standards of safety and protection for the staff, and territory** in which it operates. The focus is always on safety, staff training and the approach adopted in the management of the business overall is one of the company's points of strength. Following could be incorporated:

- The promotion of a culture of safety (with a focus on process safety),
- New applications of methodologies for the analysis and reduction of risk,
- Action in critical sectors (such as contract personnel).

HEALTH

The corporate should consider the protection of health a fundamental prerequisite and actively promoting the psychological and physical well-being of its staff through a series of specific awareness and prevention program.

- PROTECTION

- PROMOTION
- COMMUNITY HEALTH

Companies should put in place a health management system based on the international standard and apply across all operations.

KNOWLEDGE MANAGEMENT: SAFEGUARDING AND GROWING KNOWLEDGE

Knowledge management is a key element of the company's intangible assets that enables the effective use of the knowledge existing inside the company and the professional development of the people involved.

In fact knowledge management has a dual objective:

- To systematize the explicit knowledge present and widespread in organizations in order to facilitate its more effective re-use:
- To elicit the tacit knowledge of people in such a way as it ensure that it becomes an asset that can be shared within the company.

Knowledge management initiatives are based on the development of Communities of Practice, the use of the tools of collaboration and portals and, in with a view to creating a system, through the integration with professional models and management and development processes.

ENTERPRISE RESILIENCE

In a world of technological change, political turbulence, and mounting regulatory pressures, industrial growth does not proceed smoothly. Risk management is especially challenging when threats are unpredictable. At the same time, corporations are accepting broader responsibility for the social and environmental impacts of their supply chains. A resilient enterprise has the capacity to overcome disruptions and continually transform itself to meet the changing needs and expectations of its customers, shareholders and other stakeholders. Achieving sustainability will require innovation, foresight, and effective partnerships among corporations, governments, and other groups. While one cannot foretell the future, one can equip themselves to adapt to the turbulence ahead. Resilience – resisting disorder – may be the key to global sustainability.

REWARDS:

Smart companies have listened closely to what regulators, legislators, the courts and public sentiment have had to say about ethics programs. Many companies have inspirational corporate vision statements, clear corporate policies, lengthy codes of conduct, employee hotlines and comprehensive training and communication around ethics. They tout their high ethical standards in employee publications, on plaques hanging in corporate offices, in consumer advertising and on their Web sites. All of that imploded as a result of wide spread unethical behavior that extended up, down and across the organization.

Ethical behavior is really driven by how it is encouraged and rewarded. If companies are serious about ethics, they must have the elements of an ethics infrastructure and a real commitment from the leadership on the subject of ethics. But they also need to define ethical behavior in the corporate context and develop a strategy to reward the desired behavior. Building ethical standards into an incentive program

isn't the only way to link ethical behavior and rewards. Here are other ways smart companies can forge the link:

Incorporate both what and how into performance expectations. Results are the what. Ethics and other values, such as teamwork and open communication, are the how. Make achievement of results and demonstration of values equal considerations in determining the size of merit salary increases.

GREEN DEVELOPMENT:

Climate change effects on business organizations

It makes good business sense for business organizations to start accounting for their own greenhouse gas emissions, according to a report issued by the World Resources Institute.

The benefits include:

- Identifying reduction & subsequent money-saving opportunities;
- Cutting the company's regulatory risks that may result from more stringent regional, national, or international efforts to curb global warming; and
- Enhancing reputational status in the eyes of the consumers and other stakeholders.

Direct financial gains

- Cost savings (in energy/water use, paper, etc.)
- Cost-consciousness among employees
- Lower future compliance costs

Reputational/Image benefits

- Attract & retain customers
- Attract & retain good employees
- Better recognition in society & public in general

Work place benefits

- Proper facility management
- Accident-free environment
- Healthier working environment

Environmental/Ecological Gains

- Clean environmental services & access to natural resources

- **Currently, climate change and environmental issues are not merely discussed in boardrooms or part of company CSR, they are being imbedded as part of new a business model and future sustainability.**
- **A “green governance” initiative can be built in into existing corporate governance policies and practices.**