GLOBAL NETWORK OF DIRECTOR INSTITUTES

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PERSPECTIVES PAPER

Guiding Principles of Good Governance

The Global Network of Director Institutes (GNDI), founded in 2012, brings together member-based director associations from around the world with the aim of furthering good corporate governance. Together, the member institutes comprising the GNDI represent more than 100,000 directors from a wide range of organisations. This paper describes the global perspective of the GNDI on **the guiding principles of good governance.**

As a collective of the pre-eminent governance associations around the world, GNDI plays an important role in providing leadership on governance issues for directors of all organisations to achieve a positive impact for companies, the economy and society. These Guiding Principles have been developed as part of a commitment to this goal and to guide boards in good governance beyond legislative mandates.[1]

Background

Governance refers to the framework of rules, systems and processes put in place to oversee and monitor – or “govern”. Good governance underpins good conduct and the good judgment by those who are charged with running an organisation.

Effective governance structures allow organisations to manage their affairs with proper oversight and accountability, to create value over the short, medium and long term through sound investment and innovation, and provide accountability and control systems commensurate with the risks involved. Many important aspects of governance have been mandated through corporations law in jurisdictions around the world, for example the disclosure of a public company’s governance framework and practices is now required in most jurisdictions[2]. Although most governance practices remain voluntary or are only subject to “comply or explain” regulation, to be effective, corporate governance needs to be seen as a performance driver for an organisation’s sustainable success – and not simply a compliance matter.

[1] While great care is taken to ensure that the the guiding principles set out in this perspectives paper are consistent with the approved policy positions of all GNDI member organisations, this is not always possible. To the extent of any inconsistencies, the positions set out in this perspectives paper do not alter or otherwise override any express, approved policy positions of GNDI’s member organisations.

[2] For example: in **Australia** - ASX Listing Rule 4.10.3; in **Brazil** - CVM Instruction 480/09; in **Canada** – CSA National Instrument 58-101; in **Malaysia** - Malaysian Code on Corporate Governance 2012 (Principle 1); in **Mauritius** - section 8(7) of the Code of Corporate Governance, as applicable to “public interest entities” under section 75 of the Financial Reporting Act 2004; in **New Zealand** - NZX Listing Rule 10.4.5; in **South Africa** - JSE Listings Requirements, paragraph 8.63; the **United Kingdom** - FCA Listing rules, Listing Rule 9.8.6 (6); in the **United States** – NYSE Listed Company Manual, 303A.09.

These Guiding Principles are not intended to be prescriptive. It must be acknowledged there is no “one size fits all” good practice solution for effective governance. Factors which may influence how a director should govern include, but are not limited to, the nature of the organisation’s activities (e.g. complexity, risks, geographical dispersion), its regulatory environment, the legislation and other regulation that governs the organisation and the organisation’s constitution. Nor are these Guiding Principles to be considered a substitute for the relevant laws, regulations and standards with which organisations must comply.

These Guiding Principles are intended to provide organisations of all sizes and types with a starting point or guide for the development or review of their own governance arrangements, taking into account their particular circumstances. In these Guiding Principles, the terms “board” and “director” are used to refer to governing body arrangements in a wide variety of contexts. Similarly, the term “shareholder” is used broadly and is intended to capture a wide range of ownership structures, including organizations that have “members” rather than “shareholders”.

The guiding principles of good governance:

Principle 1 Responsibility	Every organisation should be headed by an effective board that is collectively responsible for overseeing the long-term success of the organisation and is charged with its direction. The board approves the vision, purpose and strategies of the organisation. It is accountable for the oversight of the organisation's performance and must act in the best interests of the organisation as a whole.
Principle 2 Organisational culture	The board sets the cultural and ethical tone for the organisation. Governance structures should be designed to encourage an appropriate organisational culture of integrity, ethics and corporate social responsibility and be tailored to the needs of the organisation. The board should codify its expectations with respect to acceptable business practices for directors, senior executives and employees, for example through the adoption of a code of conduct or code of ethics, and ensure that strategies and policies are developed to embed ethical behavior in the organisation.
Principle 3 Disclosure of practices	The governance structures and practices that have been adopted by the board should be disclosed (for example, in a member communication document or on the organisation's website) together with an explanation of why the board considers them to be appropriate for the organisation, with particular focus on any aspects that are unusual or contrary to commonly accepted governance practices.
Principle 4 Independence	All directors should exercise independent judgment. They must also provide independent oversight of management. Governance structures should be designed so that the board can provide independent leadership distinct from management and major shareholders or other influential stakeholders. Without limitation, this would include the use of regular meetings of the non-executive directors without members of the executive being present. The board should have policies and procedures on avoiding and managing conflicts of interest in place. Where a director has a conflict, or potential conflict of interest in a matter to be considered by the board, the relevant interest should be disclosed to the board

	and, where material, that director should be precluded from being present while the matter is being considered and from being able to vote on the matter.
Principle 5 Composition and leadership	Taking into consideration the scale and nature of the organisation's activities, the board should comprise an appropriate number of directors who have a relevant and diverse range of skills, expertise, experience and background and who are able to effectively understand the issues arising in the organisation's business, provide insight and add value. Directors must be able to allocate sufficient time to their roles, both collectively and individually, to discharge their duties effectively. The roles of the chair and CEO should be distinct, with the chair independent of management. However, in some jurisdictions, particularly where board independence is already safeguarded, there may be legitimate circumstances when a board chooses to join the roles, in which case it should name a lead, independent director who is empowered to call meetings and generally act as a first among equals.
Principle 6 Nomination	A formal, rigorous and transparent procedure should be in place for the nomination of directors and re-election of directors to the board. A formal performance assessment should be undertaken of any director standing for re-election. Only directors whose assessments are satisfactory should be recommended to shareholders for re-election. In jurisdictions where regular director re-election is not required by law, all directors should be submitted for re-election by shareholders at regular intervals.
Principle 7 Knowledge	Directors should act diligently on an appropriately informed basis and have access to accurate, relevant and timely information. The board and management should work together to ensure the information flow to the board is sufficient to support understanding of the organisation's business and the critical issues the organisation faces, and to enable directors to participate in active and informed discussions at board meetings. Where appropriate and necessary to discharge their responsibilities as directors, the board should have access to independent

	professional advice at the expense of the organisation. All new directors should receive appropriate induction upon joining the board. All directors should also undertake ongoing and regular education and professional development to update and refresh their skills and also their knowledge of the organisation.
Principle 8 **Risk**	The board should have an appropriate system of risk oversight and internal controls in place. The board should set the risk appetite for the organisation, articulating how much risk exposure is appropriate for the organisation to achieve its short, medium and long term strategic objectives, as well as regularly monitoring and reviewing the organisation's risk register.
Principle 9 **Relationship with management**	There should be a clear division of responsibilities between the board and the management with the board overseeing management functions. While the board is ultimately responsible for overseeing the organisation and its performance, the board will normally delegate certain functions to management. Where it does so, there should be a clear statement and understanding as to the functions that have been delegated. The board should monitor and review the performance of these delegated functions on an on-going basis.
Principle 10 **CEO and senior executives**	The board is responsible for the appointment of the CEO and the continuing evaluation of his or her performance. The board should have plans in place to manage the succession of the CEO. The board should also oversee the organisation's approach to talent management more broadly. While the CEO will often be responsible for the appointment and evaluation of the senior executive team, the board should require that there is a formal and rigorous process in place for regularly reviewing the performance of its senior executive team and addressing any issues that emerge as a result of such reviews.
Principle 11 **Communication**	The board should require that the organisation communicates with shareholders and other stakeholders in a regular and timely manner, to the extent that the board thinks is in the best interests

	of the organisation, so that they have sufficient information to make appropriately informed decisions regarding the organisation. Communications should be made in a way that provides all shareholders equal access to information concerning the organisation and should be proactive, timely, effective and easily accessible. Where the organisation holds general meetings of its shareholders, the organisation should have processes in place to facilitate and encourage participation by all shareholders at those meetings.
Principle 12 Evaluation	The board's performance (including the performance of its chair, the individual directors and, where appropriate, the board's committees), needs to be regularly assessed and appropriate actions taken to address any issues identified.
Principle 13 Remuneration	There should be formal and transparent processes for setting the level and composition of remuneration for the CEO and senior executives, as well as the remuneration of non-executive directors. Remuneration should be at a level and in a form that is reasonable and fair and that attracts, maintains and motivates appropriately skilled senior executives and directors. Performance-based remuneration for senior executives should be designed so as to align the interests of senior executives with interests of the organisation and should avoid excessive short-termism. Non-executive directors should not receive performance-based (i.e. incentive) remuneration. It is important to ensure that non-executives have different financial incentives to those of senior executives, and are focused on long-term corporate success. No senior executive or director should be involved in setting his or her own remuneration (although in many countries the board may collectively determine the general formula for director remuneration).[3]

[3] In the Nordic region, shareholders play the lead role in determining the remuneration of directors

GNDI Member Principles

These global guiding principles of good governance of the GNDI have been developed drawing from the principles that some of the individual member organisations have themselves developed at a national and/or regional level.

These include:

Australia:
Guiding Principles of Good Governance – Australian Institute of Company Directors (2014)

Brazil:
Code of Best Practice of Corporate Governance – Brazilian Institute of Corporate Governance (4th edition 2009) (Currently under revision)

Canada:
Directors' Responsibilities in Canada – Institute of Corporate Directors & Osler, Hoskin & Harcourt, LLP (2014)

United States:
Key Agreed Principles to Strengthen Corporate Governance for U.S. Publicly Held Companies – National Association of Corporate Directors (2008, 2011); *Bridging Board Gaps: Report of the Study Group on Corporate Boards* – Columbia Business School and the Weinburg Center at the University of Delaware (2011); NACD Blue Ribbon Commission Series – 21 reports with guidance on specific governance topics (1993 to present – 21 reports so far)

GNDI Perspective Papers

In addition to these Guiding Principles, the GNDI has also developed a number of other global perspectives papers. These include perspectives on:

- Curbing excessive short-termism (May 2014)
- Board-shareholder communications (December 2013)
- Integrated reporting (August 2013)
- Mandatory audit firm rotation (May 2013)
- Board diversity (February 2013)

The GNDI is the unified voice for the broad interests of directors globally, and the GNDI perspective papers generally communicate the viewpoints of the group.

About GNDI

GNDI is an international network of 15 director institutes and was established in December 2012 to foster closer cooperation between its members, who are each recognized as the primary institute for directors and governance in their respective country.

The following organizations are members of GNDI:

- Australian Institute of Company Directors (AICD)
- Brazilian Institute of Corporate Governance (IBGC)
- European Confederation of Directors Associations (ecoDa)
- GCC Board Directors Institute (BDI)
- Hong Kong Institute of Directors (HKIoD)
- Institute of Corporate Directors (ICD), Canada
- Institute of Directors in New Zealand (IoDNZ)
- Institute of Directors in Southern Africa (IoDSA)
- Institute of Directors (IoD) in the United Kingdom
- Malaysian Alliance of Corporate Directors (MACD)
- Mauritius Institute of Directors (MIoD)
- National Association of Corporate Directors (NACD) in the United States.
- Singapore Institute of Directors (SID)
- Swiss Institute of Directors (SIoD)
- Thai Institute of Directors (TIoD)

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