



Powered by:

KPMG

Institute of Chartered Accountants of Nigeria

44th Annual Accountants' Conference, ABUJA

“The Imperative of Corporate Governance in the Protection of Public Interest

**BY: EDWARD OLOWO-OKERE – DIRECTOR/ CHIEF REGIONAL STRATEGY OFFICER
THE WORLD BANK**

Presenter: Ismaila B Ceesay, Lead Financial Management Specialist, World Bank

Outline of Presentation

- Principles, Concepts, Key Issues, Context
- Key CSR Drivers in Corporate Governance
- Implications for Public Interest Protection
- CSM Management
- Role of the Accountancy Profession

Principles, Concepts, and Key Issues

“Corporate Governance refers to that blend of law, regulation and appropriate voluntary private sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole“

(The World Bank)

Distilling the basis for good corporate governance

(Duncan Fitzgerald and Philip Yau)

I. Board Structure & Composition	<ul style="list-style-type: none">➤ Composition and organisation➤ Induction and training➤ Board remuneration➤ Succession planning / identification and nomination of potential directors
II. Board Operation & Effectiveness	<ul style="list-style-type: none">➤ Boardroom conduct and relationship➤ Audit committee➤ Nomination committee➤ Remuneration committee
III. Strategy, Planning & Monitoring	<ul style="list-style-type: none">➤ Vision and mission➤ Strategy and corporate plan➤ Corporate and management performance monitoring➤ Information technology strategy➤ Human resources
IV. Robust Risk Management & Compliance Processes	<ul style="list-style-type: none">➤ Risk management framework➤ Risk process➤ Internal control
V. Transparency & Disclosure	<ul style="list-style-type: none">➤ Financial reporting➤ Enhanced reporting
VI. Corporate Citizenship (Social, Ethics, Environment)	<ul style="list-style-type: none">➤ Code of conduct➤ Business ethics➤ Employees relations / health and safety➤ Social responsibilities

Main Concepts of CSR

The rights and responsibilities assigned to private industry.

CSR (Carrol, 1979)

Firms have responsibilities to societies including economic, legal, ethical and discretionary (or philanthropic).

- See also DeGeorge (1999) on the “Myth of the Amoral Firm”

Social Contract (Donaldson, 1982; Donaldson and Dunfee, (1999)

– There is a tacit social contract between the firm and society; the contract bestows certain rights in exchange for certain responsibilities.

Stakeholder Theory (Freeman, 1984) – A stakeholder is “any group or individual who can affect or is affected by the achievement of an organization’s purpose.” Argues that it is in the company’s strategic interest to respect the interests of all its stakeholders.

Governance systems – harmonization and adoption

- Companies should harmonize their governance systems with globally acceptable systems, especially accounting and disclosure standards – IFAC’s Sustainability Framework & Environment, Social and Governance Disclosures can guide Professional Accountants in this direction.
- Harmonization does not mean converging to only one corporate governance model because such systems develop under different institutional systems and legal and regulatory framework within each country or region.
- A sound reforms policy should combine mandatory and voluntary requirements in order to achieve adherence to sound corporate governance in practice.

Key Issues in CSR

- **Labour Rights** - child, forced, organized, health & safety
- **Environmental** – climate change, emissions, Noise
- **Human Rights** – direct or complicit
- **Social Safety Nets and Poverty Alleviation**
- **Right Balance with Shareholder Profit Motive**

Key Drivers of Corporate Social Responsibility

- NGO Activism and impact on corporate image
- Responsible Investment
- Litigation and impact on the bottom line
- Government and IGO Initiatives

Key Drivers: NGO Activism/Corporate Management Impact

- Facilitate Boycotts
- Brand damage
- Influence legislation

Examples include:

- Shell in Nigeria, Exxon in Cameroon, Sinopec in Sudan, Apparel Industry (Nike, Gap), GMO, Wood Products, Apparel Distributors.

Key Drivers: Responsible Investment

- South Africa Apartheid Divestment
- Shareholder activism: shareholder resolutions
- Corporate reporting and disclosure requirements
- Emerging new rules on CSR reporting - sustainability
- Balancing economic, social, environment, societal goals
- Social and environmental audit influences

‘UN Principles for Responsible Investment’ provide guiding thoughts: www.unpri.org

Key Drivers: Litigation

- Foreign Direct Liability
- Alien Tort Claims Act (ATCA): human rights, environmental rights

Examples:

❖ The Gap Saipan

❖ Shell Nigeria

Key Drivers: Government Initiatives

- Social order – responding to societal concerns
- Environmental pressures and legal framework
- Intergovernmental codes – SEC/Central Banks
- Taxation policies
- Regulatory frameworks for corporates
- Support for adoption of reporting regimes

International Good Practice Initiatives

- UN Global Compact – 10 principles
- UN Principles for Responsible Investment
- UNEP Equator Principles
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)
- UNHCHR Business and Human Rights
- UNODC Anti-corruption
- UNCTAD Corporate Responsibility Reporting, World Investment Report
- OECD Guidelines for Multilateral Enterprises
- IFAC Sustainability Framework 2.0
- Investor Demand for Environmental, Social & Governance Disclosures (ESG)

Implications at the Corporate Level

- New product liability expectations and growing social response
- Development of Codes of Corporate Conduct and SR reporting
- Expanding scope and sphere of SR across the value chain
- Establishing and exercising compliance management regimes
- Extension of international law to Corporates
- Enhanced CSR may result in increased labor costs

Implications for Corporates: Compliance

4 key areas to address socio-environmental & legal compliance issues in corporates:

- Code of Conduct
- Compliance Management Systems – ISO/SAI
- Accounting and Reporting (CSR reporting mainstreamed)
- Feedback and Corrective Action

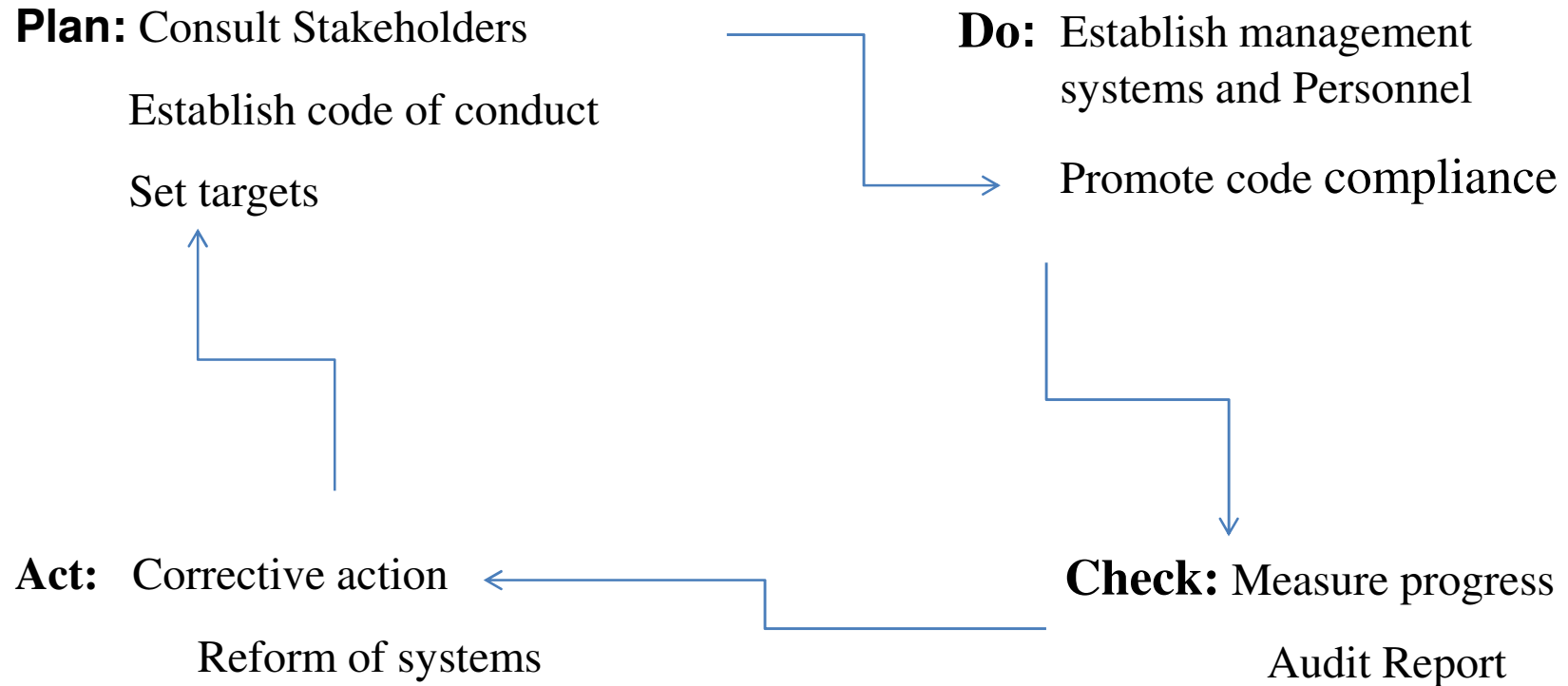
CSR Management: Striking the Balance

A **balance** has to be struck between the various corporate objectives for sustainable business development. This requires unflinching commitment to sustainability demands from within entities, shareholders, governments, and the general public. The coverage extends to finance and economics, environmental and social areas - all of which need coordination.

Guiding principles: Appropriate codes; established viable corporate goals; organizational structure; business processes and practices; reporting.

Shareholder interests are paramount but their long term interests will be best served by considering the wider interests of society, the environment, employees and other stakeholders as well.

CSR Management Cycle



Adoption of Code of Conduct: Widespread adoption among TNCs

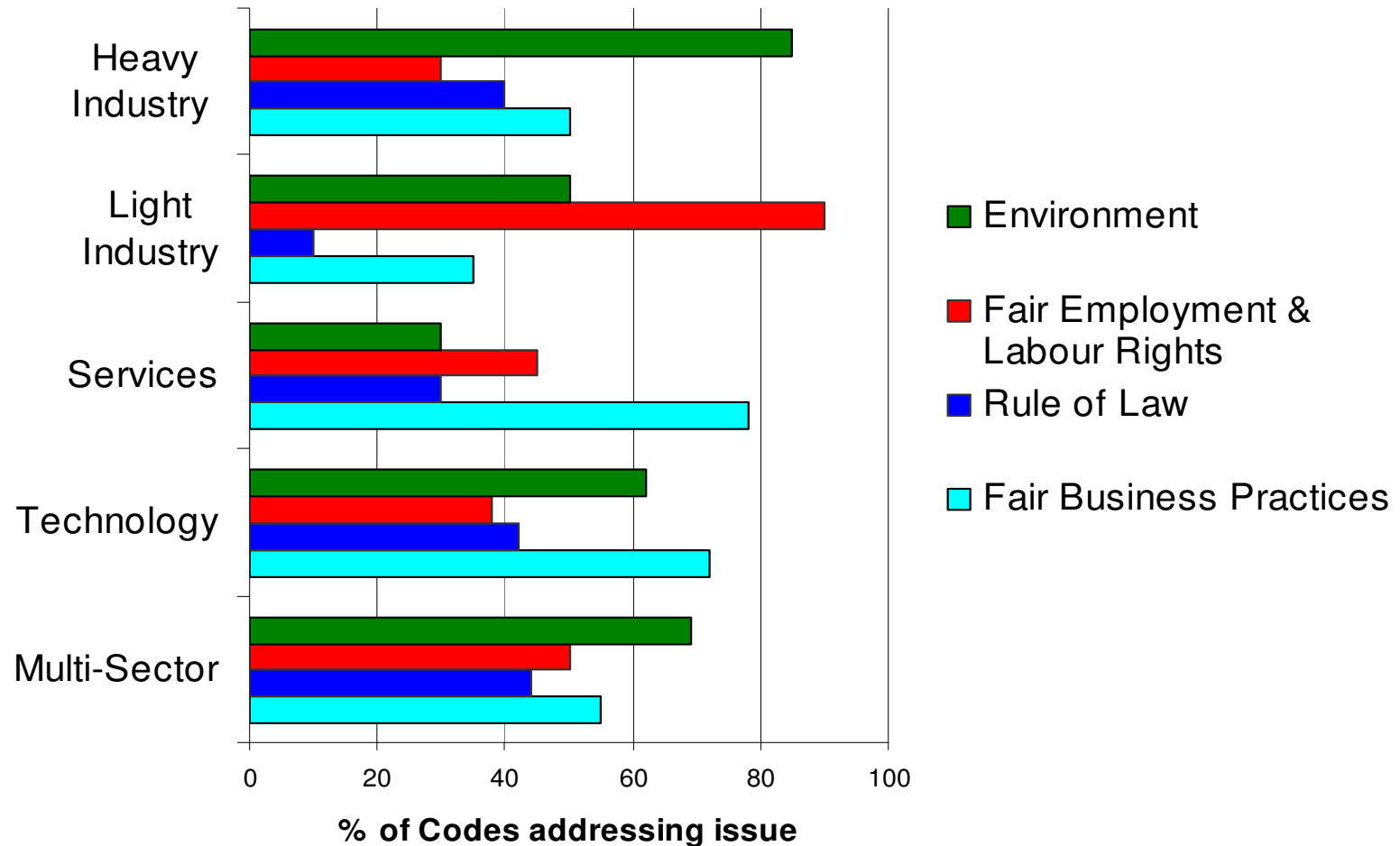
Widespread adoption among Trans-Nationals

Found among all industrial sector corporates

No one size fits all

Prescriptive approach or recommendations and guidelines or both

Code of Conduct: Issue emphasis varies by industry



Source: OECD 1999
survey of 233 codes

Accountancy Profession: Role in Promoting CSM and Outcomes

- As providers of integrated information, role of accountants is critical and crucial.
- Accountants should see themselves not only as custodians of private sector corporate finances and financial information but also of all public interest entities including governments and SOEs.
- Increasingly, accountants and auditors are focusing on performance reporting – environment, social etc. whether in the private or public sectors.

Accountants on Sustainability Reporting

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” – (1987 UN Report ‘Our Common Future’, also known as ‘The Brundtland Report’).

❖ Sustainability has 3 elements: **environmental**, **social** and **economic** sustainability

Accountants and Sustainability Reporting

- Environmental reporting has advanced – e.g. on explicit financial incentives and penalties such as carbon taxes, but there remains the issue of how to better report on say, biodiversity and social sustainability.
- Measurement challenges (e.g. capturing issues through monetised values remain).
- Current practice of incorporating non –financial indicators and narrative reporting is encouraged until researches yield better results.
- The difference between ‘well-being’ and ‘sustainability’ should be underscored. The latter seeks not only to look at the current status but also to forecast the future outlook – a difficult exercise indeed.
- Nevertheless, accountants could work in concert with environmentalists, economist, sociologists, statisticians and other professionals to develop meaningful sustainability reports as part of annual reports of entities.

Accountants can Deploy Expertize in Sustainability Reporting

Core areas of expertize:

- budget and strategy setting
- audit
- procurement
- performance measurement
- risk management
- accountability and governance

But challenges remain:

- difficulties of estimation and projections,
- understanding links between actions and impact,
- establishing robust indicators, and
- verifiability and assurance

Emerging Reference Standards in CSR Reporting

Global Reporting Initiative (GRI)

A multi-stakeholder initiative

www.globalreporting.org

International Standards of Accounting and Reporting (ISAR)

A project of UNCTAD

www.unctad.org/isar

IFAC Sustainability Framework 2.0: Integration of sustainability factors from three perspectives:

- business strategy, operational, and reporting

and highlights the important roles that professional accountants play in facilitating the sustainable development of their organizations.

- With professional accountants serving as integrators.

www.ifac.org

Investor Demand for Environment, Social and Governance Disclosures: Implications of Professional Accountants in Business.

www.ifac.org

Thank you