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Corporate governance can be described as

> "The framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations."[1]

It is one aspect of what is known as Corporate Responsibility (Information Sheet 12) and accounts for, among other things, the management systems to support corporate social responsibility (CSR, Information Sheet 11). CSR accounts for the social, economic and environmental impacts[2] of the organisation's management systems. Environmental management systems (EMS) for example, are part of corporate governance; the practical outcomes of the organisation's EMS are accounted for as part of corporate social responsibility. Corporate governance and corporate social responsibility are both part of the wider picture of corporate responsibility.

Increasingly over the past several years environmental issues have gained prominence in corporate governance debate as board members try to balance their responsibility to shareholders with their responsibility to the environment. According to the founder of SustainAbility[3], John Elkington:

> "Corporate governance is fundamentally about such questions as what business is for - and in whose interests companies should be run, and how. Wider issues such as business ethics through entire value chains, human rights, bribery and corruption, and climate change are among the great issues of our time that increasingly cross-cut the rarefied worlds of corporate boardrooms."[4]

Globalisation has increased the need for international standards of corporate governance that ensure organisations operate ethically, that economic benefits are shared equitably and that economic growth is globally sustainable. Corporate governance is sometimes bundled together with environmental and social standards in what is referred to as corporate ESG [environmental, social and governance standards]. In 2007 the World Business Council for Sustainable Development reported that regulatory standards on corporate ESG disclosure and performance were on the rise. They point to the revised Companies Act passed in the UK in 2006 and the Accounts Modernization Directive, which mandate corporate ESG reporting. They report also that in July 2007, Indonesia adopted Article 74 requiring social and environmental responsibility programs for companies dealing in natural resources.[5]

The Intergovernmental Panel on Climate Change acknowledges an increasing emphasis on accountability in governance and links it to the growing use of indicators to manage and measure the sustainability of development. They site such measures as green certification, monitoring tools and emission registries as vital to this process[6].

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1 The Failure of HIH Insurance Volume 1: A corporate collapse and its lessons April 2003:23.

2 i.e. the triple bottom line

3 http://www.sustainability.com/ (accessed 02/01/08)

4 Elkington, John, "Governance for Sustainability". Corporate Governance: An International Review, Vol. 14, No. 6, pp. 522-529, November 2006 Available at SSRN: http://ssrn.com/abstract=939835 or DOI: 10.1111/j.1467-8683.2006.00527.x (accessed 02/01/08)

5 http://www.wbcsd.org/plugins/DocSearch/details.asp?txtDocTitle=social%20responsibility&txtDocText=social%20responsibility&DocTypeId=1&ObjectId=Mjc1MDE&URLBack=result%2Easp%3FtxtDocTitle%3Dsocial+responsibility%26txtDocText%3Dsocial+responsibility%26DocTypeId%3D%2D1%26SortOrder%3D%26CurPage%3D1 (accessed 10/01/08)

6 IPCC, 2007: Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the IntergovernmentalPanel on Climate Change [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA., p. 693 http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter12.pdf (accessed 03/01/08)

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Quality of corporate governance is increasingly becoming a criterion for investment and lending. To address the need for high standards of reporting national and international bodies are engaged in providing advice, guidelines, tools and standards. Below are some examples.

Advice and guidelines

The Global Corporate Governance Forum (GCGF)[7]

The GCGF is a multi-donor trust funded International Finance Corporation (IFC) facility. It was co-founded by the World Bank and the Organisation for Economic Co-operation and Development (OECD) to promote sustainable economic growth and poverty reduction. Its mandate is to "promote global, regional and local initiatives that improve corporate governance policy standards and practices in developing countries."[8]

The GCGF sees its primary functions as: raising awareness and building consensus; sponsoring research relevant to the issues of undertaking corporate government reform; disseminating best practice; and funding technical assistance and capacity building.

The Australian Stock Exchange (ASX) Corporate Governance Council[9]

The ASX Corporate Governance Council's guidelines[10] cover 10 principles that they believe underlie good corporate governance: the roles of management and the board; expertise of board members; integrity and responsible and ethical decision making; company reporting; timely and balanced picture of all material matters; rights of shareholders; risk management; effectiveness of board and management; rewards; serving the interests of all stakeholders.

Adherence to principles of good corporate governance is seen as essential if Australia is to retain investor confidence and compete in a global market place. To this end, since 2003, organisations have been required to report their corporate governance practices with reference to the guide. They must explain any failure to follow all of the recommendations contained in the guidelines.

OECD

In 2004 after extensive public consultation the OECD published its revised principles of corporate governance[11]. The principles provide guidance for "policymakers, regulators and market participants in improving the legal, institutional and regulatory framework that underpins corporate governance, with a focus on publicly traded companies."[12]

The principles cover the areas of: the basis for an effective corporate governance framework; rights of shareholders; equitable treatment of shareholders; role of stakeholders; disclosure and transparency; and responsibilities of the board. They specifically mention the provision of information related to environmental risks and to the systems for monitoring and managing risks.

The principles are non-binding. They are for use in the examination and development of regulatory frameworks for corporate governance. The report recognises that corporate governance is only one part of the context in which firms operate and that the environment and social contexts also impact on reputation and long-term success[13].

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7 http://www.gcgf.org/ (accessed 02/01/08)

8 http://www.gcgf.org/ifcext/cgf.nsf/Content/Work_Program (accessed 02/01/08)

9 http://www.asx.com.au/supervision/governance/ (accessed 02/01/08)

10 Principles of Good Corporate Governance and Best Practice Recommendations (2003)

11 http://www.oecd.org/dataoecd/32/18/31557724.pdf (accessed 02/01/08)

12 http://www.oecd.org/dataoecd/41/32/33647763.pdf (accessed 02/01/08)

13 http://www.oecd.org/dataoecd/32/18/31557724.pdf (accessed 02/01/08)

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Investment and Financial Services Association (IFSA)

IFSA is an Australian not-for-profit organisation that represents funds management and life insurance industries. IFSA developed best practice guidelines for corporate governance in response to concern over high profile issues in the 1980s. Their best known publication is the Blue Book *Corporate Governance: A Guide for Fund Managers and Corporations*[14].

Institute of Chartered Secretaries and Administrators (ICSA)[15]

The ICSA is a global voice on governance and regulatory issues in the private, public and not-for-profit sectors. ICSA works with government and other statutory bodies to provide guidance on good governance. It also offers a professional qualification training for Chartered Secretaries in corporate governance, effective operations, compliance and administration.

Tools

Corporate Responsibility Exchange (CRE)

In 2006 ICSA Software acquired the Corporate Responsibility Exchange (CRE), which is an online tool developed by the London Stock Exchange for reporting on corporate governance and corporate social responsibility[16]. It is designed to improve reporting of Corporate and Social Responsibility and Corporate Governance information to rating agencies and institutional investors. It includes question sets from a wide range of organisations, rating agencies and codes, including the Global Reporting Initiative (GRI).

Bottom Line cubed (BL³)

BL³ is a software tool, developed by the University of Sydney[17] and Dipolar Pty Ltd[18], It provides a triple bottom line management framework and monitoring tool with an extensive suite of indicators. The social, economic and environmental analysis framework provided by the software forms the foundation for an integrated suite of management systems.

Standards

New York Stock Exchange (NYSE)

The Corporate Governance Listing Standards set out in Section 303A of the NYSE Listed Company Manual were approved by the Securities and Exchange Commission on November 4, 2003 and amended 2004[19]. They were aimed at strengthening corporate governance standards for listed companies.

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14 http://www.ifsa.com.au/documents/IFSA%20Guidance%20Note%20No%202.pdf fifth ed Oct 2004 (accessed 02/01/08)

15 http://www.icsa.org.uk/ (accessed 02/01/08)

16 http://www.icsasoftware.com/unitedkingdom/index.htm (accessed 03/01/08)

17 http://www.isa.org.usyd.edu.au/ (accessed 03/01/08)

18 http://www.bottomline3.com/ (accessed 03/01/08)

19 http://www.nyse.com/Frameset.html?nyseref=http%3A//www.nyse.com/regulation/listed/1101074746736.html&displayPage=/lcm/lcm_subsection.html (accessed 03/01/08)

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Australian Standards on Corporate Governance

Standards Australia has published a series of standards to help organisations develop and implement effective corporate governance practices[20]. They provide a non-prescriptive framework for small, large, public, private and not-for-profit organisations to support the development and implementation of a generic system of governance. The Corporate Governance Standards set comprises numbers AS 8000 – 8004. They have been developed around the OECD Principles of Corporate Governance, the IFSA's *Corporate Governance: A Guide for Fund Managers and Corporations* and the ASX listing rules.

The challenge

The United Nations Global Compact[21] suggests that companies "once held accountable only for the direct, contractually specified or regulated consequences of their actions now find themselves responsible for issues as disparate as environmental sustainability, the spread of HIV/AIDS, and child labor in sub-Saharan Africa"[22] (p.7).

Stakeholders, including consumers and employees, taking up these issues find themselves with increasing power to threaten a company's commercial viability. Perhaps only those companies that have the tools and the will to "meet difficult environmental, social and governance (ESG) challenges will be positioned to succeed in the years ahead" p.6.

20 http://www.saiglobal.com/shop/script/Details.asp?DocN=AS964071607297 (accessed 03/01/08)

21 an initiative established in 2000 to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on them.

22 http://www.unglobalcompact.org/docs/summit2007/mckinsey_embargoed_until020707.pdf (accessed 03/01/08)

Oppenheim, J., Bonini, S., Bielak, D., Kehm, T., and Lacy P. (2007) Shaping the New Rules of Competition: UN Global Compact Participant Mirror, McKinsey & Company.