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TOOLKIT 1

Building Director Training Organizations

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T O O L K I T 1

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M O D U L E 2

Structuring



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Structuring

The structure and bylaws that a director training organization establishes for itself will depend largely on its goals, its legal status, the country's legal requirements, and whether it will be a membership organization. The examples presented in this module will provide guidance for organizations that are starting up or for established organizations seeking to refine their governing structures.

WHAT YOU WILL FIND IN THIS MODULE

This module discusses the main steps in setting up and developing the structure of the organization. The structure includes the governing body (the board of directors) and the management team that will direct operations aimed at fulfilling the organization's mission.

This module also provides guidance on drafting the organization's major bylaws, including the charter (constitution) and other documents stating the rules and principles under which the organization will operate.

This module reviews:

- The duties and responsibilities of the governing body of the organization
- The key positions on the governing body or board
- The key staff positions
- The elements of the organization's charter (constitution)
- How to draft a code of ethics and a code of conduct

GLOSSARY

TERMS COMMONLY USED IN ORGANIZATIONAL STRUCTURES

GOVERNING BODY	Structure chosen to govern the affairs of the organization. Unless the organization is set up as a trust fund or is an affiliate of an established organization, the governing body is usually called a board. The board is composed of directors, sometimes called board members. Depending on the legal framework in which the organization operates, the board may be set up as a unitary board or as a two-tier board.
CHARTER	The charter, constitution, or prospectus is the organization's main founding document and sets forth the organization's legal status, mission statement, goals, and organizational structure.
CHIEF EXECUTIVE OFFICER	In every organization there is at least one person who leads staff and is responsible for overseeing operations; someone who is generally known as the president, executive director, chief administrator, general manager, or chief executive officer. Working closely with the governing body (generally the board of directors) and advisory groups, the chief executive officer is responsible for carrying out the strategic plans and policies of the organization.
EXECUTIVE DIRECTORS	Board members who are part of the organization's staff and actively participate in the management of the organization, such as the chief executive officer, the chief financial officer (finance director), or the general counsel (secretary).
NONEXECUTIVE DIRECTORS	Board members who are not part of the organization's staff and are not involved in its day-to-day administration. Nonexecutive directors are also referred to as "independent" directors or "outside" directors.

ESTABLISHING THE GOVERNING BODY

Once the organization has been registered according to established local procedure and basic funding has been secured, the founders of the organization are likely to establish the governing body—in most cases, a board of directors. In both the start-up and operational phases, the governing body contributes to setting the direction in which the organization should be heading and to planning how to get there. The governing body also plays an essential part in monitoring the organization’s performance, safeguarding its reputation, and making sure it meets its goals. For many not-for-profit organizations, board members are often called upon to raise funds, increase public visibility, and recruit members.

For information on the first steps in starting up a director training organization, see MODULE 1, STARTING.

Best practice

The legal requirements on how to set up the organization’s governing structure vary from country to country and depend on the type of organization set up. In most cases, a director training organization will have a board of directors. In some cases—if the organization is set up as a unit of a bigger organization such as a stock exchange, or is established as a partnership or a trust, for example—it will have a different governance structure. Whatever form the governing body takes, following established best practice may help ensure the successful strategic guidance of the organization. The best practice principles of a well-functioning governing body remain effectiveness, accountability, and transparency:

- **Effectiveness.** The board exercises leadership, enterprise, and judgment, combined with prudent control in directing the organization so as to ensure its long-term sustainability. The board must always attempt to act in the best interests of the organization as a whole.
- **Accountability.** The board is accountable to its funding partners (and members, when relevant) while taking into account the interests of all interested parties. It should act in compliance with all applicable laws. Board members must be aware of their legal duties and liabilities. Moreover, because the mission of a director training organization is to improve corporate governance practices as a whole, directors should take care that their conduct reaches the highest standards of integrity. They should act in good faith, on a fully informed basis, and in the best interests of the organization as a whole.

THINKING POINT

What guiding principles will make the governing body of your organization effective? Transparent? Accountable?

- *Transparency.* There should be sufficient transparency regarding the activities of the board to secure confidence and trust in the organization. The board is responsible for communicating fully with funding partners, members (if applicable) and relevant stakeholders such as staff members.

The governing body or board of a director training organization should also be aware of its legal duties and liabilities. These will vary from country to country.

The governing body should meet on a regular basis, usually three to six times a year. However the governing body of a start-up organization may want to meet more frequently to help get the organization on track. The governing body's primary responsibilities and duties include:

- Establishing the organization's vision, mission, and values
- Providing strategic guidance by setting performance goals, assessing risk, and reviewing annual budgets and business plans
- Monitoring the organization's performance
- Monitoring the quality of the organization's activities and services
- Identifying and replacing key staff when necessary
- Ensuring the integrity of the organization's accounting and reporting systems
- Appointing an independent auditor
- Ensuring a formal and transparent board nomination process
- Reviewing the remuneration of key staff, as well as board members, if applicable
- Managing and disclosing potential conflicts of interest of management, board members, funding partners, and other stakeholders
- Convening the annual general meeting

It is also essential that the members or representatives of the governing body help:

- Raise funds
- Raise awareness
- Strengthen the organization's reputation
- Support membership growth
- Represent the interests of the organization's members and stakeholders
- Support the organization's standards and policy perspectives

THE ANNUAL GENERAL MEETING

At the annual general meeting, funding partners and or members of the organization typically:

- Review the annual report including the organization's financial and nonfinancial statements (see MODULE 5: MONITORING)
- Appoint or reappoint the independent auditor for the ensuing year
- Elect or reelect members of the governing body
- Review the performance of the organization
- Discuss any other matter on the agenda

Funding partners and or members should be given ample notice of the date of the annual meeting and the topics that it will cover.

Typically, the organization sends funding partners and or members notice at least 21 days before the meeting. They should be allowed to propose items to be discussed on the agenda and have the governing body or board respond to their questions. *(A sample notice for an annual general meeting of a membership organization is provided in annex 1.)*

Assembling the governing body

The size of the governing body or board should not be so large as to be unwieldy nor so small as to lack independence or perspective. Some director training organizations find that a board of seven to fifteen members works well. Board members often serve two three-year terms. In some cases, an organization might want to invite a board member to serve beyond the stated term limit. In such cases, these board members are generally reelected annually.

To fulfill its duties effectively, the governing body not only needs access to accurate and relevant information about the organization's performance; it must also be able to exercise independent judgement about whether management and staff members are developing the organization to its full potential.

It is therefore important that the founders of the organization provide for the appointment of board members that are not part of the organization's staff or involved in its day-to-day administration. As opposed to executive directors or managers who are part of the organization's staff and actively participate in the management of the organization, these nonexecutive directors or board members

THINKING POINT

What sort of expertise do you need from your nonexecutive board members?

may be better able to evaluate whether the organization is taking the proper actions to meet its goals and maintain high standards of conduct.

Nonexecutive directors should have no conflicts of interest with the organization or its business, and they should be committed to the organization's objectives. It is common best practice that no more than one person from the same outside organization be named to the board. They may be selected among funding partners or come from outside the organization. Membership organizations typically select their nonexecutive directors among their membership base. Individuals are often invited to sit on the governing body of the organization because of their special expertise or reputation in some area of importance to the organization, such as financial affairs, strategic planning, corporate governance issues, or curriculum development.

Members of the governing body with the following professional qualities are likely to be most helpful in leading the organization toward its long-range goals:

- Sound judgment with a tested competence and track record
- An enquiring mind to question intelligently, debate constructively, challenge rigorously, and decide dispassionately
- Ability to provide advice and counseling to the board in their individual areas of expertise
- Solution-oriented, addressing issues in a pro-active manner
- Ability to devote sufficient time to duties
- Commitment to the mission and goals of the organization
- A good understanding of corporate governance issues
- A role model for members or directors generally

COMPOSING THE GOVERNING BODY

The ideal board should:

- **Bring together the stakeholders supporting the organization**
- **Be composed of high-profile directors with integrity and commitment to the organization's objectives**
- **Have members with no conflicts of interests**
- **Include executive and nonexecutive members**
- **Ensure that the interests of all beneficiaries and or members of the organization are fairly represented**
- **Ensure the overall independence of the organization to allow it to fulfill its objectives**

Most start-up organizations will be unable to compensate members of its governing body for their contribution to the development of the organization as most of the organization's funds will be needed for operational costs and developing its activities. In most cases board members see their contributions to the mission and goals of a director training organization as important and prestigious and readily offer their time on a voluntary basis. Members of the governing body representing funding partners may in some cases be compensated by those funding partners.

EXAMPLES

EXAMPLES OF GOVERNING STRUCTURES

BRAZIL

The board of the Brazilian Institute of Corporate Governance consists of nine members who all work on a voluntary basis. The board normally meets six times a year and can meet more often if circumstances require. The board meets initially in executive session, without any members of management being present, so that management performance can be reviewed. The CEO and often the corporate secretary and treasurer usually attend the rest of the meeting, which usually lasts for three hours. The board chairman later reports to the managers individually on the discussions held in executive session.

KENYA

The board of the Centre for Corporate Governance in Kenya is composed of 11 nonexecutive directors and 1 executive director, who is the chief executive officer of the center. The chairman of the board is a nonexecutive director. Other nonexecutive directors include an accountant, attorneys, business executives, a government representative, and a trade union representative.

Continued next page

EXAMPLES OF GOVERNING STRUCTURES (CONT.)

NEW ZEALAND

The National Council (Board) of the Institute of Directors, New Zealand consists of a nonexecutive president, a nonexecutive vice president, and seven nonexecutive members. All nine members of the council are members of the institute and do not receive any remuneration for their services to the institute. The president carries out a leadership role in the conduct of the council and its relations with members and other stakeholders. The president maintains a close professional relationship with the chief executive officer and the management team. The institute's constitution governs procedures for the operation of the national council, including the election of council members.

TURKEY

The Corporate Governance Forum of Turkey has a two-tier board structure. The first tier is an executive board consisting of three members. One member is the executive director of the forum, who is employed on a full-time basis. The two other members are nominated by the two founders of the forum (Sabanci University and the Turkish Industrialists' and Businessmen's Association, or TUSIAD). These two members do not have management roles in the forum. Their role is to advise and support the executive director in executing the annual plan and to facilitate organizational support from the two founding organizations.

The second tier is called the supervisory board. A self-regulating board, it is composed of the presidents of the two founding organizations and the two representatives they nominate for the executive board. The two presidents together name an independent chairman (who is not affiliated with the founding organizations). The executive director of the forum serves as the secretary of the supervisory board. The supervisory board can have up to 11 members. However, there must always be an equal number of academic and business representatives. There is no vice chairman.

**THINKING
POINT**

Who should be eligible to be chairman? How should the chairman be selected?

Filling key positions

In setting up the governing body of the organization, the founders of the organization should provide as soon as possible for the following five key positions:

- Chairman
- Chief executive officer of the organization
- Vice chairman
- Treasurer
- Secretary

Chairman of the board

In most organizations, the chairman of the governing body or board is typically elected from among the nonexecutive members of the board for a specific term (often three years). Although the chief executive officer may serve on the board, it is considered best practice that he or she not serve as chairman. This will help preserve the independence of the board and avoid vesting too much power and authority in one person. In the case of start ups, the chief executive officer nevertheless often serves as chairman of the board, and that is also typically the pattern in nonprofit organizations.

The role of the chairman of the board is to:

- Ensure that the role and powers of the board are clear and well understood.
- Lead the board in setting the organization’s values and strategy.
- Lead the board in making major decisions affecting the organization.
- Chair all meetings of the board, allowing sufficient time for full discussion of complex or contentious issues.
- Ensure that the board operates effectively in all aspects of its role and does not micromanage the senior management team.
- Publicly represent the organization (together with the chief executive) and ensure that the views, advice, and opinions expressed in public by any person on behalf of the organization do not conflict with those of the organization.
- Ensure (with the assistance of the chief executive and secretary) that all directors receive accurate, timely, appropriate, and clear information, including agendas for board meetings.
- Promote effective communication between executive and nonexecutive directors, both at board meetings and at other times.

THINKING POINT

*What skills and expertise
are you seeking in a chief
executive?*



- Monitor the composition and structure of the board by regularly reviewing items such as the overall size of the board, the balance between executive and nonexecutive directors, and the balance between age, experience, skills, and personality of the directors. If the composition and structure are inappropriate, the chairman is responsible for initiating necessary change.
- Initiate regular reviews of the board's performance. (*Guidance on evaluating the performance of a board is given in annex 2.*)
- Establish a program of induction for new board members.
- Encourage board members to seek continuing professional development.
- Ensure that all board committees that have been established operate effectively.

Chief executive officer

The chief executive officer manages the organization and is responsible for seeing that the decisions made by the board are properly and effectively implemented. The key role of the chief executive is to take the lead in putting the long-term strategy of the organization into operation. This involves:

- Developing strategic operating plans that reflect the longer-term objectives and priorities established by the board and ensuring that these are appropriately delegated to the executive directors or other members of the senior management team.
- Maintaining an on-going dialogue with the chairman of the board about the goals and performance of the organization.
- Ensuring that the operating objectives and standards of performance are understood and accepted by the management and other employees.
- Closely monitoring the operating and financial results against plans and budgets.
- Taking remedial action where necessary and informing the board of significant changes.
- Recruiting, developing, and maintaining a strong executive team.

Vice chairman

The duty of the vice chairman is to act in the absence of the chairman (that is, when the chairman is not able to attend a meeting for some reason such as sickness or travel). In a well-operated board, the vice chairman does not automatically progress to the chairmanship. Instead, some months before the chairman's terms is due to expire, the board (or the nomination committee if one has been set up) should propose a successor to the chairman (and obtain such prospective successor's consent). This procedure upholds the democratic process and avoids the embarrassment of feeling obliged to appoint a predetermined candidate when a more qualified candidate might be available. (However, a director training organization might consider that the vice chairman position, while not providing automatic progression, provides a good training ground for the next chairman.) Ideally, an outgoing chairman mentors the successor in the last few months before leaving office.

Treasurer

The treasurer is responsible for ensuring that the accounts and financial records of the organization are properly maintained and that its assets are prudently managed. The treasurer is typically a nonexecutive director and should have appropriate accounting qualifications as well as experience in financial affairs. As the organization grows, it is likely to hire an executive finance director to take over these functions. If the board retains the position of a nonexecutive treasurer, that director would act as an advisor to the finance director and typically head the audit committee.

Secretary

The secretary is responsible for ensuring that the board follows appropriate procedures and that the organization complies with all applicable statutes and regulations. The secretary's primary task is to serve the board and the organization by advising on and managing internal legal issues. He or she convenes board meetings in accordance with applicable regulations and ensures that minutes and a record of attendance are kept.

Refining the board's structure

As the organization matures and increases in size, its governing structure is likely to be refined. For example, the board may decide to establish committees to monitor specific activities. Or it might decide to create an advisory council.

THINKING POINT

What committees might be of greatest help to your board?

Board committees

Like most larger organizations, an organization that trains directors might want to set up nomination and audit committees. Given the specific mission of a director training organization, the board should also consider setting up committees on:

- Training activities or professional development, to oversee the existing programs and curriculum and guide necessary changes. This committee would be responsible for monitoring all aspects of developing and updating the curriculum, ensuring that each course meets the established criteria and that the course leaders are well qualified. If the organization certifies course participants, the committee should monitor this program and any complaints and appeals procedures associated with certifications and the training program in general.
- Membership, to monitor and develop the membership strategy.
- Corporate governance, to stay abreast of developments in this field.

The board may want to set up committees on any number of other subjects, including remunerations and communications. Even if the organization is not yet in a situation to establish such committees, it may consider having all of these specific issues as regular items of the board's agenda.

As a matter of good governance, the duties and responsibilities of each committee should be clearly defined. Other matters, such as the number of committee members, the designation of specific board members as committee members, and the number of committee members required for a quorum, should also be spelled out. Ideally, the membership of every committee should be reviewed annually. (*Summaries of the principal duties of nominations and audit committees are provided in annex 4.*)

EXAMPLES

BOARD COMMITTEES: SOUTH AFRICA

The board of the Institute of Directors in Southern Africa has the following committees:

- Executive Committee—Board of Directors
- Finance, Audit, Risk, and Remuneration
- Nomination
- Membership, Public Relations, Publications, and Networking
- Integrated Sustainability—Safety, Health and Environment
- Corporate Governance
- Director Development

THINKING POINT

What are the specific job and personal qualities you are looking for in your senior management team?

Advisory council

A director training organization may also want to set up an advisory council (or panel) in order to raise its profile among relevant stakeholders and benefit from the advice of various experts. Unlike the board, the council does not monitor the organization and has no power of decision. Its role is to support the general goals of the organization, advise the board on strategic issues, and help the organization establish its reputation.

The council is responsible for:

- Advising the board on any changes to the organization's constitution (or other governing document).
- Introducing key contacts and "opening doors" in support of the organization's development.
- Promoting the interests of the organization and acting as ambassadors for it.
- Advising on any matter which, in the opinion of the board, will have a material effect on the nature or development of the organization.
- Acting as a consulting body to the board as required.

SELECTING SENIOR STAFF

As mentioned earlier in this module, the organization's first hiring priority is the chief executive officer, who will manage the overall day-to-day operations of the organization. Following are brief descriptions of some of the other senior positions that a director training organization might want to fill quickly. An organization that is just starting up may not be able to fund all of these positions immediately and may therefore need to ask some managers to work on a part-time basis or to take on more than one function (*see annex 3 for a sample job description and personal specification form*).

Head of training activities

The head of training activities is a key position for an organization whose primary function is training directors. The head of professional development or training program director organizes a range of training courses, professional development programs, and services for directors, including standards, certification, and accreditation. This person is also in charge of developing the curriculum, collecting relevant training materials, and managing the team of trainers.

Accounting

One of the first positions the organization will need to fill is that of accountant, even if the person hired does not work full time or performs others task. Once the organization is well established, it will most likely set up a financial department.

Public relations officer

The public relations officer is responsible for raising the profile of the organization not only within the business community, but also with the news media and among opinion leaders both inside and outside government. A start-up organization typically cannot afford to hire a public relations officer. The chief executive officer and the chairman of the board are well situated to take on the public relations functions.

Head of events

The head of events manages the conferences, meetings, and other events that the organization hosts for its members and/or stakeholders. This person also manages the organization's facilities and arranges for any meeting room rental and catering the organization might require in connection with its events or as a service to members and/or stakeholders.

Once the organization is up and running, it may also want to appoint a marketing manager, a policy and research director, a human resources director, and a manager in charge of membership to help the organization in the recruitment and retention of members and the development of member benefits and services. Until the organization is able to hire people for these positions, the functions should be covered by the chief executive officer, who may want to delegate some duties to existing staff.

EXAMPLES

STAFFING THE ORGANIZATION: THE BRAZILIAN EXPERIENCE

“During the first two years there was no staff. The chairman/chief executive officer, the treasurer and the corporate secretary, all on a voluntary basis, handled all the administrative work using any available volunteer or even family members. In 1997 a student was employed for office work consisting primarily of handling the courses, telephone calls, correspondence, the registration of members and the preparation of accounting documents. In 1999 an additional person was employed to handle the logistics related to the monthly events, courses, seminars and the annual congress. The financial success of the Brazilian Institute of Corporate Governance is the result of close cost control and a lot of voluntary work.”

Bengt Hallqvist, *Private Institute for Corporate Governance: The Brazilian Experience*

DEVELOPING THE ORGANIZATION'S CHARTER

The charter or constitution is the principal document guiding the organization's operation. The charter typically provides a structure for the effective and efficient management of the organization. It sets out clear lines of responsibility and timely decisionmaking, ensures that the interests of funding partners, members, and other stakeholders will be properly represented, and provides clear accountability for serving those interests. The table on this page lists the items that can be included in a charter. *(An example of a charter of a start-up organization is given in annex 5.)*

ELEMENTS OF A CHARTER	
TOPIC	ELEMENT
OBJECTIVES	<ul style="list-style-type: none"> • An objectives clause
MEETINGS	<ul style="list-style-type: none"> • Notice periods of general meetings • Definition of a quorum • Role and powers of the chairman • Who may attend meetings • Who may vote at meetings • Appointment of an individual to maintain the minutes • Rights to inspect minutes of meetings
GOVERNING BODY	<ul style="list-style-type: none"> • Structure of the governing body • Powers and responsibilities (including duties and liabilities) of directors or board members • Composition of the board • Number of directors or board members (minimum / maximum) • Appointment procedures • Retirement procedures (if applicable) • Disqualification and removal procedures • Remuneration procedures (if applicable) • Expense account procedures • Declaration of the interests of directors or board members
MEMBERS (IF APPLICABLE)	<ul style="list-style-type: none"> • Definition and categories of members • Membership fees
ACCOUNTS	<ul style="list-style-type: none"> • Who maintains the accounts • Rights to inspect the accounts • Annual report dissemination processes • Who receives the annual report
AUDIT	<ul style="list-style-type: none"> • Audit procedures • Appointment of external auditor
PROFITS/SURPLUS	<ul style="list-style-type: none"> • Profit/surplus distribution process (if applicable)
WINDING-UP PROCEDURES	<ul style="list-style-type: none"> • Procedures for closing down the organization

THINKING POINT

What key values should the code of ethics uphold?

DEVELOPING A CODE OF ETHICS AND A CODE OF CONDUCT

To foster best practices, it is especially important for director training organizations, and nonprofit organizations generally, to develop a code of ethics. The board (with the support of the advisory council, if applicable) should develop a code of ethics for the organization's management and staff. The code of ethics shapes and reflects the organization's culture, describing the core values that should guide personal decisionmaking consistent with the organization's stated principles and values. The code of ethics goes beyond legal compliance to capture the spirit of the law and focus attention on the values and principles implicit in all the organization's policies.

A code of ethics may address issues such as gifts and entertainment, bribery and corruption, conflicts of interest, confidential information, and use of the organization's assets, for example.

There are many ways to develop a code of ethics. Whatever method is chosen, it is essential that input be solicited from the entire staff of the organization, from the chief executive on down. Staff members who are given a stake in developing the code are more likely to commit to following it in their work lives.

Following are the key steps in developing an effective code of ethics:

- *Identify a "champion."* The champion oversees the process of developing the code. Ideally the champion will be a senior manager, preferably the chief executive, to ensure maximum support from the management team.
- *Form a working party.* A working party drafts the code. It begins by identifying key words associated with the organization and its values, such as "integrity," "reliability," or "transparency." These words should be defined in a statement of principles that the organization adheres to in its day-to-day relationships with internal and external stakeholders. The code should also define what constitutes a conflict of interest or an unacceptable gift, for example.
- *Test the draft code.* The draft code should be "tested" internally. Typically, it is discussed with the board to determine if it is appropriate and then discussed with managers and staff.
- *Formally adopt the code.* The code should be formally adopted by the board and ratified by the chief executive officer and/or board chairman. One or both of these two officers also usually writes a preamble explaining the importance of following the code.

- *Publish the code.* The code should be published and disseminated to all board members and all staff. In addition each member of the staff should receive training in the use of the code. It should be published both internally and externally in paper format and on the organization’s website, if one is available.
- *Review the code.* From time to time the code should be revisited to ensure its relevance. The board should monitor this feedback process.

Each organization will want to develop its own unique code of ethics reflecting its particular circumstances. *(A sample code of ethics is provided in annex 6. It is offered for guidance.)*

CODES OF CONDUCT

A code of ethics can be complemented with a code of conduct. A code of conduct is concerned primarily with the rules by which the organization is managed, as opposed to the organization’s values, and seeks to promote compliance with the legal obligations of the organization. It outlines the standards and measurements by which employees or members will be held accountable in observing the stated corporate values and principles. To foster best practices the code should go beyond the basic necessities regulated by law. *(A sample code of conduct for board members is provided in annex 7.)*

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ANNEXES

1. Sample notice of an annual general meeting
2. Guidance on evaluating performance of a board of directors
3. Sample job description
4. Principal duties of the nomination and audit committees
5. Sample charter
6. Sample code of ethics
7. Sample code of conduct

ANNEX 1. SAMPLE NOTICE OF AN ANNUAL GENERAL MEETING

The following example comes from the Institute of Directors, UK, a membership organization.

Notice is hereby given that the Annual General Meeting of the Institute of Directors will be held at 116 Pall Mall, London SW1 on Wednesday 30 July 2003 at 2.30pm for the following purposes:

- 1 To receive and consider the Report and Accounts for the year ended
- 2 To re-elect Members of the Council.

The following members of the Council retire under By Law 24(2) and, being eligible, offer themselves for re-election:

- *
- *
- *
- *

- 3 To re-appoint as auditors for the ensuing year.

By Order of the Council

Date

Address

Note *A member entitled to attend and vote at the Annual General Meeting may appoint another member, or alternately may nominate the Chairman of the Meeting, to vote in his or her stead on a poll. A form of proxy is available from the Institute Secretary on request. To be valid the completed proxy form must be received by the Institute Secretary at (address of Institute) not later than 48 hours prior to the time of the Meeting.*

ANNEX 2. GUIDANCE ON EVALUATING PERFORMANCE OF A BOARD OF DIRECTORS

This guidance is taken from Derek Higgs, 2003, Review of the Role and Effectiveness of Non-executive Directors. London: United Kingdom Department of Trade and Industry (www.dti.gov.uk/cld/non_exec_review).

The board evaluation process should be used constructively as a mechanism to improve board effectiveness, maximise strengths and tackle weaknesses. The results of board evaluation should be shared with the board as a whole, while the results of individual assessments should remain confidential between the chairman and the non-executive director concerned.

The following are some of the questions that should be considered in a performance evaluation. They are, however, by no means definitive or exhaustive and companies will wish to tailor the questions to suit their own needs and circumstances.

The responses to these questions and others should enable boards to assess how they are performing and to identify how certain elements of their performance areas might be improved.

Performance Evaluation of the Board

- How well has the board performed against any performance objectives that have been set?
- What has been the board's contribution to the testing and development of strategy?
- What has been the board's contribution to ensuring robust and effective risk management?
- Is the composition of the board and its committees appropriate, with the right mix of knowledge and skills to maximise performance in the light of future strategy? Are inside and outside the board relationships working effectively?
- How has the board responded to any problems or crises that have emerged and could or should these have been foreseen?
- Are the matters specifically reserved for the board the right ones?
- How well does the board communicate with the management team, company employees and others? How effectively does it use mechanisms such as the AGM [annual general meeting] and the annual report?
- Is the board as a whole up to date with latest developments in the regulatory environment and the market?
- How effective are the board's committees? (Specific questions on the performance of each committee should be included such as, for example, their role, their composition and their interaction with the board.)

The processes that help underpin the board's effectiveness should also be evaluated e.g.:

- Is appropriate, timely information of the right length and quality provided to the board and is management responsive to requests for clarification or amplification? Does the board provide helpful feedback to management on its requirements?
- Are sufficient board and committee meetings of appropriate length held to enable proper consideration of issues? Is time used effectively?
- Are board procedures conducive to effective performance and flexible enough to deal with all eventualities?

In addition, there are some specific issues relating to the chairman which should be included as part of an evaluation of the board's performance e.g.:

- Is the chairman demonstrating effective leadership of the board?
- Are relationships and communications with shareholders well managed?
- Are relationships and communications within the board constructive?
- Are the processes for setting the agenda working? Do they enable board members to raise issues and concerns?
- Is the company secretary being used appropriately and to maximum value?

Performance Evaluation of the Non-executive Director

The chairman and other board members should consider the following issues and the individual concerned should also be asked to assess themselves. For each non-executive director:

- How well prepared and informed are they for board meetings and is their meeting attendance satisfactory?
- Do they demonstrate a willingness to devote time and effort to understand the company and its business and a readiness to participate in events outside the boardroom, such as site visits?
- What has been the quality and value of their contributions at board meetings?
- What has been their contribution to development of strategy and to risk management?
- How successfully have they brought their knowledge and experience to bear in the consideration of strategy?
- How effectively have they probed to test information and assumptions? Where necessary, how resolute are they in maintaining their own views and resisting pressure from others?

- How effectively and proactively have they followed up their areas of concern?
- How effective and successful are their relationships with fellow board members, the company secretary and senior management? Does their performance and behaviour engender mutual trust and respect within the board?
- How actively and successfully do they refresh their knowledge and skills and are they up to date with:
 - the latest developments in areas such as corporate governance framework and financial reporting?
 - the industry and market conditions?
- How well do they communicate with fellow board members, senior management and others, for example shareholders? Are they able to present their views convincingly yet diplomatically and do they listen and take on board the views of others?

ANNEX 3. SAMPLE JOB DESCRIPTION

This sample was provided by the Institute of Directors, UK.

JOB TITLE:-	
RESPONSIBLE TO:-	
JOB PURPOSE:-	
MAIN RESPONSIBILITIES:-	
LOCATION:	
RELATIONSHIPS	CONTACTS INCLUDE:-
PERSONAL SPECIFICATION:-	SEE ATTACHED PAGE
EDUCATION/SKILLS	A) . B) . C) . D) . E) . F) . G) . H) .
TERMS AND CONDITIONS	
HOURS	
HOLIDAY	
SALARY	
BENEFITS	

Personal Specification

The post holder will be required to hold or develop the following competencies:

1. A client focus -
 - ~ To interact with high level clients, both members and non-members.
 - ~ To find out their priorities and needs and to offer solutions and support.
2. Product knowledge -
 - ~ To be able to get to grips quickly with the range of products and services on offer by the IoD.
3. Professionalism -
 - ~ To be punctual and meet deadlines.
 - ~ To act with honesty and integrity at all times with all internal and external relationships.
 - ~ To be thorough and up to date with paperwork and admin.
4. Working relationships -
 - ~ To develop strong and professional relationships with clients, colleagues and suppliers.
 - ~ To develop and maintain helpful and supportive relationships within the department, with other departments and other Institutes and bodies.
 - ~ To establish a network of contacts.
5. Values, beliefs and attitudes -
 - ~ To conduct yourself in a friendly and helpful manner.
 - ~ To demonstrate a sense of humour and build long term relationships which benefit the client.
 - ~ To be able to interact on equal terms with Board level clients.
 - ~ To be tenacious and keep a positive attitude even when the client is consistently unavailable - Directors are busy people!
 - ~ To be concerned only with what can be done, not what can't.
6. To be a team player and to help out when required.
7. To be willing and open to learning new things.

ANNEX 4. PRINCIPAL DUTIES OF THE NOMINATION AND AUDIT COMMITTEES

The Nomination Committee

Following is a summary of the principal duties of the Nomination Committee, taken from Derek Higgs, 2003, Review of the Role and Effectiveness of Non-executive Directors. London: United Kingdom Department of Trade and Industry (www.dti.gov.uk/cld/non_exec_review).

The nomination committee should consist of a majority of independent non-executive directors. It may include the chairman of the board, but should be chaired by an independent non-executive director.

Duties

The committee should:

- be responsible for identifying and nominating for the approval of the board, candidates to fill board vacancies as and when they arise;
- before making an appointment, the nomination committee should evaluate the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- review annually the time required from a non-executive director. Performance evaluation should be used to assess whether the non-executive director is spending enough time to fulfill their duties;
- consider candidates from a wide range of backgrounds and look beyond the “usual suspects”;
- give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the company and what skills and expertise are needed on the board in the future;
- regularly review the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations to the board with regard to any changes;
- keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;

- make a statement in the annual report about its activities; the process used for appointments and explain if external advice or open advertising has not been used; the membership of the committee, number of committee meetings and attendance of members over the course of the year;
- make publicly available its terms of reference explaining clearly its role and the authority delegated to it by the board; and
- ensure that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The committee should make recommendations to the board:

- as regards plans for succession for both executive and non-executive directors;
- as regards the re-appointment of any non-executive director at the conclusion of their specified term of office;
- concerning the re-election by shareholders of any director under the retirement by rotation provisions in the company's articles of association;
- concerning any matters relating to the continuation in office of any director at any time; and
- concerning the appointment of any director to executive or other office other than to the positions of chairman and chief executive, the recommendation for which would be considered at a meeting of the board.

The Audit Committee

The following is a summary of the principal duties of an audit committee, taken from Robert Smith, 2003, Audit Committees Combined Code Guidance London: Financial Reporting Council (www.frc.org.uk).

Constitution

1. The board hereby resolves to establish a committee of the board to be known as the Audit [and Risk] Committee.

Membership

2. The committee shall be appointed by the board. All members of the committee shall be independent non-executive directors of the company. The committee shall consist of not less than three members. A quorum shall be two members.
3. The chairman of the committee shall be appointed by the board from amongst the independent non-executive directors.

Attendance at Meetings

4. The finance director, head of internal audit and a representative of the external auditors shall attend meetings at the invitation of the committee.
5. The chairman of the board, the CEO and other board members shall attend if invited by the committee.
6. There should be at least one meeting a year, or part thereof, where the external auditors attend without management present.
7. The company secretary shall be secretary of the committee.

Frequency of Meetings

8. Meetings shall be held not less than [three] times a year, and where appropriate should coincide with key dates in the company's financial reporting cycle.
9. External auditors or internal auditors may request a meeting if they consider that one is necessary.

Authority

10. The committee is authorised by the board to:
 - a. investigate any activity within its terms of reference;
 - b. seek any information that it requires from any employee of the company and all employees are directed to co-operate with any request made by the committee; and
 - c. obtain outside legal or independent professional advice and such advisors may attend meetings as necessary.

Responsibilities

11. The responsibilities of the committee shall be:
 - a. to consider the appointment of the external auditor and assess independence of the external auditor, ensuring that key partners are rotated at appropriate intervals.
 - b. to recommend the audit fee to the board and preapprove any fees in respect of non audit services provided by the external auditor and to ensure that the provision of non audit services does not impair the external auditors' independence or objectivity;

c. to discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

d. to oversee the process for selecting the external auditor and make appropriate recommendations through the board to the shareholders to consider at the AGM [annual general meeting];

e. to review the external auditor's management letter and management's response;

f. to review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the company.

g. to consider management's response to any major external or internal audit recommendations;

h. to approve the appointment or dismissal of the head of internal audit;

i. to review the company's procedures for handling allegations from whistleblowers;

j. to review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.

k. to review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the board, paying particular attention to:

- i. critical accounting policies and practices, and any changes in them
- ii. decisions requiring a major element of judgement

iii. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed

iv. the clarity of disclosures

v. significant adjustments resulting from the audit

vi. the going concern assumption

vii. compliance with accounting standards

viii. compliance with stock exchange and other legal requirements

ix. reviewing the company's statement on internal control systems prior to endorsement by the board and to review the policies and process for identifying and assessing business risks and the management of those risks by the company; and

l. to consider other topics, as defined by the board.

Reporting Procedures

12. The secretary shall circulate the minutes of meetings of the committee to all members of the board, and the chairman of the committee or, as a minimum, another member of the committee, shall attend the board meeting at which the accounts are approved.

13. The committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the board.

14. The committee's duties and activities during the year shall be disclosed in the annual financial statements.

15. The chairman shall attend the AGM and shall answer questions, through the chairman of the board, on the audit committee's activities and their responsibilities.

ANNEX 5. SAMPLE CHARTER

This example comes from the Corporate Governance Forum of Turkey, which was formed by a university and a business association.

1. General

1.1. Corporate Governance Forum of Turkey is founded by Sabanci University (SU) and Turkish Industrialists' and Businessmen's Association (TUSIAD).

1.2. The Forum will be initially funded by the founders and will seek synergies with the founders' strategies and programs to the extent it is possible.

2. Mission

2.1. The mission of the Forum is "to support improvement of corporate governance practices and legal and institutional framework in Turkey through research and educational programs as well as to play be actively involved in advocacy of good corporate governance."

The Forum recognizes the role of improved corporate governance in reducing the vulnerability of emerging markets to financial crises and in promoting better performance and responsible behavior of the corporations for the benefit of society in general. The Forum contributes to the international efforts and to the on-going debate on the role of Corporate Governance for sustainable economic growth by fostering co-operation with other relevant organizations and individuals.

3. Objectives

The Forum's objectives driven from its mission are

3.1. In the area of research

3.1.1. To undertake, commission and disseminate research on Corporate Governance in co-operation with existing European and global research networks

3.1.2. To promote interaction between academics in Turkey from different disciplines bringing together a critical mass of expertise and interest in Corporate Governance

3.1.3. To contribute to and advise on policy formulation and best practice development based on objective research and collective wisdom of the Forum

3.2. In the area of training and education

3.2.1. To develop and offer training and education programs for directors (Board members) of open corporations . . . to help them appreciate the benefits of better corporate governance and understand the role and responsibilities of boards

3.2.2. To help develop and document professional standards, best practices and accreditation criteria for Boards and Board members

3.3. In the area of advocacy

3.3.1. To organize/support roundtables, forums and conferences bringing together private sector representatives, investors, NGOs and experts from both academia and the government

3.3.2. To disseminate and present to the public the knowledge and the collective wisdom of the Forum in journals, publications, newspapers and other media

3.3.3. To undertake or engage in any other activity that will improve understanding and practice of corporate governance

4. Lines of Action

4.1. The following lines of activities are considered for the Forum.

- a) Courses, training and education for corporate Boards
- b) Research and publications
- c) Public lectures, seminars, workshops, roundtables, conferences
- d) International co-operation and presence
- e) Advisory services and development of case studies
- f) Resource and communication hub (Portal)
- g) Promoting public debate on current issues of Corporate Governance

4.2. Annual program will make use of available funds and resources to define the specific activities for the year in consideration.

5. Governance

5.1. The formal bodies of the Forum are the Supervisory Board and Executive Board

6. Supervisory Board

6.1. The highest governing body of the Forum is the Supervisory Board.

6.2. The procedure to establish the first Council is defined in the "Memorandum of Understanding" signed between the founders. Once established by the "Memorandum of Understanding" signed by the Founders, the Council is a self-governing body.

6.3. The Council will consist of minimum 3 maximum 9 members. It may decide to alter its size and composition for every year of operation to include representatives of other future donors and internationally renowned academicians; however the council will always be composed of equal number of academic and nonacademic members excluding the Chairman who is always a nonacademic. Maximum term for Council membership is 2 years. The Council

- a) Elects its independent chairman (who is not a representative of the Founders)
- b) Invites and appoints new Council members as appropriate
- c) Defines and directs the mission and the strategy of the Forum
- d) Oversees the Program Office and reviews its activities periodically
- e) Approves the annual program, budget and accounts of the Forum
- f) Agrees terms of reference for advisory panels
- g) Approves the amendments to the Statute of the Forum
- h) Provides leadership for the Forum
- i) Decides on potential donors and strategic partners

6.4. The Council physically meets twice a year. Extraordinary meetings can be convened at the request of any board member or the Forum's Director. Decisions are taken in consensus. Decisions may be taken between meetings by correspondence on a no-objection basis.

7. Program Office

7.5. Program Office consists of Forum Director and program staff as foreseen in annual programs. The statutory employer of the staff is SU.

The Director

- a) Prepares annual program and budget for approval by the Council
- b) Is responsible for the implementation of the annual program
- c) Reports to the Council periodically
- d) Utilizes available funds in accordance with the priorities and procedures agreed by the Council
- e) Sets up advisory panels to support the activities of the Forum based on the terms of reference agreed by the Council
- f) Acts as the secretary of the Council
- g) Represents the Forum at academic circles, media, general public etc.

8. Financing and Auditing

8.1. The core funding of the Forum initially will come from the Founders. The principles of funding are explained in the Memorandum of Understanding. The Forum is intended to become self funded gradually. The Forum will also seek sponsorship from corporations for specific activities or projects.

8.2. Financial control, audit and treasury function will be performed by Sabanci University in accordance with the Memorandum of Understanding.

8.3. Each advisory panel set up in accordance with the annual program will submit a review of Forum's activities to the Council to assess the effectiveness of the Forum's program in fulfilling it's function and achieving it's objectives.

ANNEX 6. SAMPLE CODE OF ETHICS

This example was provided by the Institute of Business Ethics in the United Kingdom as a guideline for developing a code of ethics for a directors' organization.

A. Preamble

The Institute should adhere to three core values:

1. Integrity;
2. Respect for others; and
3. Openness.

It should also:

- Recognise obligations to all those with whom it has a relationship—members, employees, customers, suppliers and the wider community;
- Protect its reputation by ensuring the trust and confidence of those with whom it deals;
- Maintain the highest ethical standards in carrying out its business activities. Corrupt practices of any sort should not be tolerated; and
- Monitor ethical performance regularly.

B. Relations with Members

1. Provide products and services giving good value and consistent quality, reliability and safety.
 - Marketing products and services produced to accredited national and international standards or, in their absence, stringent safety tests;
 - Giving adequate and accurate descriptions of products or services;
 - Not knowingly selling products which harm its members or customers.
2. Avoid untruths, concealment and overstatement in all advertising and other public communications.
3. Provide a high standard of after-sales service in its efforts to maintain member or customer satisfaction and co-operation.
4. Ensure no gift of inducement is made or received

to or from a member or customer, which could be construed as being intended as a bribe.

5. Avoid practices which seek to increase sales by any other means than legitimate merchandising efforts.

6. Maintain the confidentiality of member and customer information.

C. Relations with Shareholders and other Investors

1. Protect the interests of shareholders and other investors and will not do anything that will advantage one class of investor at the expense of another.
2. Ensure accounting statements give a true and fair view and are issued in a timely manner.
3. Aim to provide benefits and services to, and representation on behalf of, its members.
4. Communicate its business policies, achievements and prospects honestly and in a timely manner.

D. Relations with Employees

1. Recruit and promote employees on the basis of their suitability for the job without discrimination in terms of race, religion, national origin, colour, gender, sexual orientation, age, marital status or disability unrelated to the task in hand.
2. Seek to provide a clean, healthy, safe and secure work environment in line with best practice.
 - Employees for their part have a duty to take every reasonable precaution to avoid injury to themselves, their colleagues and members of the public.
 - The Institute's health care specialists are employed as impartial advisors and their actions are governed by their professional codes of ethics. Access to clinical data is

confined to the occupational physicians and nurses and no confidential information may be disclosed to any others without the consent of the individual employee.

3. Explain the purpose of its activities and individual jobs, foster effective communication and involve employees in improving their work and that of the enterprise as a whole.
4. Encourage and help employees at all levels to develop relevant skills and progress their careers.
5. Maintain a framework of fair and just remuneration policies and structures In recognition of the efforts of the individual.
 - Pay systems should seek to recognise both the contribution of the individuals and the performance of the departments in which they work.
6. Ensure that information received by employees in the course of business dealings may not be used for gain for themselves, their families and friends or any purpose except that for which it is given.
7. Ensure that any personal interests or that of a member of one's immediate family in relation to the Institute's business must be disclosed. A conflict of interest could include directorships, significant shareholdings and employment of family members.
8. Not tolerate sexual, physical or mental harassment of its employees.
9. Ensure that appropriate steps are taken so that employee pension funds are responsibly governed, preserved and used for their proper purpose.
10. Implement a disputes procedure and resolve issues.
11. Maintain effective communication with each employee as an individual, and within the natural groupings in which they work. Where appropriate, for individuals to be suitably represented in negotiations. Where Trade Union recognition agreements exist, ensuring appropriate structures are in place to facilitate constructive dialogue.

E. Relations with Suppliers

1. Aim to develop relationships with suppliers based on honesty, fairness and mutual trust.
2. Undertake to pay suppliers in accordance with agreed terms.
3. Not use purchasing power unscrupulously.
4. Not receive improper inducement from suppliers in return for concessions.
 - Gifts and favours must not be solicited;
 - Gifts of money must never be accepted;
 - Reasonable small token and hospitality may be accepted provided they do not place the recipient under any obligation, are not capable of being misconstrued and can be reciprocated at the same level.
 - Any offer of gifts or favours of unusual size or questionable purpose should be reported immediately to the employee's manager and the Institute Secretary.
5. Ensure that all information concerning the relationship between the Institute and the supplier is respected as confidential.

F. Relations with Government and the Local Communities

1. Commitment to obey the law and to contribute to the economic well-being and social development of countries and communities where it conducts business.
2. Respect the traditions and cultures of each country in which it operates.
3. Take into account the concerns of the wider community including both national and local interests.
4. Encourage participation of employees in the community and civic affairs.
5. Support, as appropriate, communities in which it operates. Generally donations should be minimal as it should be the business of the individual members of the Institute to make donations. The Institute should not make donations out of membership subscriptions.

G. Regulatory Authorities

1. Co-operate fully with any regulations or regulatory authority having jurisdiction.

H. Environment

1. Take responsibility, as pragmatically reasonable, over the conservation and enhancement of the environment in its broadest sense. It should therefore:
 - a. Review regularly and report on the environmental performance of existing operations
 - b. Keep the communities in which the Institute operates informed of its environmental programme.

I. Taxation

1. Ensure proper compliance with tax obligations.
2. Record and report all transactions, including those where payment is made in cash.

J. International

1. Where business practices differ in different countries in which the Institute operates, working for consistent procedures among subsidiaries and associates.
2. Consider carefully before trading with, or investing in, countries which are governed by regimes which are deemed repressive, that is, those which do not adhere to the UN Charter of Human Rights.

K. Relations with Competitors

1. Compete vigorously, but honestly.
2. Not damage the reputation of competitors either directly or by implication or innuendo.
3. Ensure employees avoid discussing proprietary or confidential information with any contacts with competitors.

4. Not attempt to acquire information regarding a competitor's business by disreputable means.

This includes industrial espionage, hiring competitors' employees to obtain confidential information, urging competitors' personnel or customers to disclose confidential information, or any approach which is not transparent.

5. Not engage in anti-competitive practices or abuse any position of market dominance.

L. Compliance and Verifications

1. Implement applicable principles and elements of the Code within the broad conditions of employment.
2. Aim to create the climate and opportunities for employees to voice genuinely held concerns about behaviour or decisions that they perceive to be unethical.
3. Ensure that the Institute Secretary has the responsibility for initiating and supervising the investigation of all reports of material breaches of conditions of employment and ensure that appropriate disciplinary action is taken when required.
4. Ensure that auditors are asked to report on any practice they discover in the course of their work which appears to breach the Code of Ethics.

ANNEX 7. SAMPLE CODE OF CONDUCT

This code of conduct is from Appendix 1 to the Articles of Association of the Australian Institute of Company Directors.

1. A director must act honestly, in good faith and in the best interests of the company as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
3. A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
4. A director must recognise that the primary responsibility is to the company's shareholders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the company.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board of directors.
9. Confidential information received by a director in the course of the exercise of directorial duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or the person from whom the information is provided, or is required by law.
10. A director should not engage in conduct likely to bring discredit upon the company.
11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this Code.

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To develop this toolkit and gather lessons learned from developing and developed countries alike, the Global Corporate Governance Forum invited representatives from director training organizations from various regions of the world to share their experiences and discuss milestones and challenges in building director training organizations. The Forum would especially like to thank the following people for their contribution to this toolkit by providing materials, examples, and extensive comments on building director training organizations:

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