

REBUILDING TRUST IN CORPORATE GOVERNANCE

Malta, 4 May 2017

mag. Irena Prijović, ecoDa Chair and Secretary General SDA

I would like to make a few points on rebuilding trust in CG, especially from the directors' view and directors' associations that I represent.

- 1) As directors **we are held accountable for failures of businesses and unethical business models even beyond our individual powers, as society perceives us collectively.** We must admit it, system was failing and many just went along, putting a blind eye on and misusing the powers entrusted. Society is expecting new ways of doing businesses and governing companies or at least to make some cardinal changes.

What we have given them are few court-suits which in some cases are going on for years, we produced more regulations from legislation to soft-law, lots of powers have moved from directors to shareholders and regulators, we have more reporting and checks and balances. All these focused directors on compliance; they became less strategy oriented and more averse to take hard decisions. But our work is all about decision-making and at the end of the day there is no system of total protection. We collectively haven't lived up to society's expectations although they might be somehow unrealistic.

Among many mentioned initiatives to make changes how businesses are conducted, I would like to bring the attention to The King IV Report from South Africa, which I find interesting beyond regular governance codes. It is for sure inspiring as its fundamental philosophy puts in focus ethical consciousness and holistic approach to governing companies by integrated

thinking. Speaks about stakeholders' inclusivity, companies as corporate citizens and integral parts of society.

- 2) There is **a trust issue in general** on all levels of society. People are disappointed, scared for jobs and scared for losing what they have. They don't trust the elites anymore. Elites are either "in powers with their heads in the clouds" or "very quiet and conforming". Having to prove we are trustworthy is hard. We just have to accept that this is the fact and act on it by making ethical and responsible long-term decisions, conducting socially & environmentally responsible businesses. It is hard to know what is good in such a chaotic, complex, scientifically- and technologically-changing world we live in. So we have a huge responsibility to be aware of how our lives and businesses are lived and changing. I came across the article recently on Ikea sustainable business and really liked how they embody their values and live the vision of "making better living for many people". We do have businesses that prove they are there for more than just a profit and dividends.
- 3) There is a vast field to be touched upon in the future on building trust in CG – and this is **a role of the media**, their business models and the reality of fake news. This is why many managers chose to stay away and be invisible. But talking about trust **needs communication** that goes beyond reporting. Personal communications of C.E.Os' and other intellectuals' broader trust. Also through new media where our buyers, employees and other companies' stakeholders are present. CEOs and experts should not conform but should speak up on broader issues of society in accordance with their values.
- 4) **EcoDa as European Voice of Directors** was forerunner in awareness of the **mistrust of boards**. That is why we not only have hosted many events on Trust on Boards in past years but also stressed the importance of board ethics and culture. In many occasions during our discussions we moved from usual reporting, transparency, remuneration issue debates to directors' integrity and board behaviour. Back to basics, fundamental and eternal »walking the talk«. Integrity is about being whole. In the sense of directorship also not taking advantage of powers entrusted. Right board culture produces

value, awareness and wisdom that distinguishes excellent boards from average or failed ones.

- 5) With this we are confronted with **the question of the role of directors' associations**. Our role is not only to enhance the professionalism through codes, guidelines, education and certification, but also to communicate what we think is right, to **speak up on bad governance and proactively communicate on policy**. Our members need to know what we stand for in order to identify with and build up their own opinions. We should trigger them to do so.

- 6) In the past there was quite strong public pressure to sanction managers of failed companies on ethical misbehaviour. As Slovenian Directors' Association with nonexecutive directors membership, which I nationally represent, we were proactive in **cases of unethical decisions of members of supervisory boards**. We have had quite some cases at the Court of Honour. This is a very good example of speaking up against unethical behaviour and bad governance.

- 7) One last point I would like to make is about how **more regulations resulted in less competence**. Coming from Slovenia which is a small economy with highly concentrated state ownership I have witnessed the State with all powers as an owner and a legislator reacting by enforcing new legislations on SOEs:
 - Heavy limitation of management remuneration,
 - Limiting number of directorships to prevent the concentration of powers in one person (or political party),
 - Doubling the number of years for indemnity liability,
 - Total transparency of sponsorships and consulting service contracts

Nothing really helped CEOs to improve the CG. On contrary, it has resulted in less empowered non-executive directors and less competent managers not paid by the results, boards unable to attract high-level and international managers,

companies' stakeholders and service providers being reluctant to work with SOEs... So this is a painful case of **regulation not transformed to the right culture**. More legislation does not incentivize the right motivation. Now that we have lived up to see these painful results, we **lack a political power to change it**. Government is held up by strings of public opinions and populism. It is putting itself in prison with own interest for re-election. The costs are leveraged to companies as such. Not only painful but expensive experience.