Corporate Public Affairs Oration

2000

Corporate Governance – Conformance or Performance

Delivered by

MR S.D.M Wallis, AO

THE CENTRE FOR CORPORATE PUBLIC AFFAIRS

Foreword

This is the seventh Corporate Public Affairs Oration. Previous Orations in the series have been:

1994 The Hon John Dawkins, former Federal Treasurer, *Business-Government Relations: a decade of economic reform and the role of business*

1995 Mr John Prescott, Managing Director and Chief Executive Officer, BHP Company Limited, *Business in its Community: forging a new partnership*

1996 Mr John Ralph, AO, Chairman, Forster's Brewing Group Limited, *A corporate social responsibility?*

1997 Mr W Frank Blount, CEO Telstra Corporation, *Convergence or Collision? Emerging complexities at the business/community interface*

1998 Mr M A (Tim) Besley, AO, *End of Millenium Challenges for Business, Government and Society*

1999 The Hon. John Howard, MP, Prime Minister, *Corporate Community Involvement*

The Oration has two objectives:

- to extend knowledge about public affairs management. It seeks to do this by providing a forum for those who have made a distinguished contribution in related areas to reflect on their experience and thus contribute to understanding of the function and the sparse literature in the field; and
- to focus attention on the nature of the social and political environment. The Oration seeks to illustrate why and how successful management includes in its vision and practice constructive engagement with its communities.

Through the wide distribution of the Oration and through the other activities of the Centre for Corporate Public Affairs we seek to further these goals.

The Oration was delivered at a Centre dinner held in Melbourne on 29 June 2000.

Introduction

We were delighted that Stan Wallis agreed to present the year 2000 *Corporate Public Affairs Oration*.

Stan has contributed greatly through ideas and actions to business and public policy in Australia throughout his long career. He joined APM, which became AMCOR, in 1960 and was Managing Director of that major Australian firm at the age of 38. He held that position for an amazing 20 years while the company grew, internationalised and prospered. Stan has been on major company boards for all but 5 of his 40 years of corporate life. These have included small, private, and partly owned companies and his latest achievement has been leading, as Chairman, the successful float of the small technology company Pineapplehead.

Stan's other Directorships have included NZ Forest Products, the Melbourne Business School, Nicholas Kiwi, Mayne Nickless, Spicers Paper and Chairman, Santos Limited.

Apart from Pineapplehead, Stan is currently Chairman of AMCOR, Coles Myer Ltd, and AMP; all companies that have had recent interesting issues to deal with, including in the arena of corporate governance.

Stan is immediate past president of the Business Council of Australia and over many years has made a major contribution to the work of the Council. There he played a leading role in the reforms to the industrial relations system, amongst many other things, and with John Ralph, was a major player in the reform of the Australian taxation system.

Stan became a household name as Chairman of the Inquiry into the Australian Financial System, the so-called Wallis Inquiry. His recommendations have changed and are still changing the regulatory system and the structure of the finance industry in Australia.

Stan is a thoughtful and determined leader who truly makes a difference. I have great pleasure in asking him to address us on his chosen topic, *Corporate Governance – Conformance or Performance*.

Oration

Corporate Governance – Conformance or Performance

Mr S.D.M. Wallis, AO

INTRODUCTION

Thank you for opportunity to speak tonight – I am honoured to be following in footsteps of some very distinguished predecessors in delivering this Annual Corporate Public Affairs Oration.

For much of my time as a CEO I endeavoured to avoid the speaking circuit, but then went through a period of over-exposure during my involvements with the Financial System Inquiry and the Business Council of Australia.

In recent times I have once again decided to minimise my time at the speaker's rostrum and only "stick my head up" for worthy occasions and worthwhile topics. Tonight is such an occasion.

I have decided tonight to venture in terms of speech-making into new territory for me and talk publicly about corporate governance and the role of boards. It is however a subject I am very familiar with.

During my career to date, I have experienced at very close quarters the workings of all manner of companies and of all manner of directors and have observed the ongoing debate about the role of board and corporate governance with great interest.

Whilst much progress has been made there is, in my opinion, wide spread misconceptions about the role of boards and about the current corporate governance debate in this country.

In summary I propose tonight to talk:

- *About the Role of Boards* and in particular how an ever-changing environment is placing demands on boards and directors to review their structure and operation.
- *About Corporate Governance* and where the formal processes of corporate governance have a place and highlight why corporate governance in itself can never be an overall panacea or a clear path to enhancement of shareholder value
- *About the Real Drivers of Corporate Performance* – however illusive they may be and how we need to revise our board structures, practices and membership and if necessary roll back some of the cornerstones of the current corporate governance debate;

And finally I want to say a few words :

- *About the Modern Corporation and its Place in Society Today*. What are our responsibilities beyond those to our shareholders, particularly as financial or shareholder capital is replaced by intellectual capital as the main driver of performance in the new economy.

  What are the implications of shareholder activism for public companies as issues such as the environment, remuneration and genetically modified foods, community responsibility and so on, are pursued relentlessly and in some cases very effectively.

I also need at the outset to give some attribution to my remarks tonight. About twelve months ago, on behalf of my colleagues at Coles Myer, I retained Colin Carter, Senior Vice President of The Boston Consulting Group in Melbourne, to assist in a review of the performance of the Coles Myer Ltd board. Whilst the review was a rewarding exercise in itself, Colin and I spent a lot of time discussing the conformance versus the performance issue in relation to boards and I acknowledge freely that as a result of Colin's review I have moved much closer to the view that we need a fresh approach to how we think about boards and the real drivers of board performance, rather than the emphasis that we see today which is on the formalised edicts of the corporate governance debate.

CORPORATE GOVERNANCE TODAY

We all agree about the role of a board – to agree strategy, to monitor performance, to approve major investments, to ensure major risks are managed, to appoint the CEO and approve succession plans and top management compensation, to ensure compliance on all fronts and to establish ethical standards for the company's operations and people.

We probably all agree about the main tenets of corporate governance. There must be protection for all shareholders, including minorities. Management must be held accountable to shareholders, there must be transparency and free disclosure and above all we must have an active independent board that oversees management.

The focus on contemporary corporate governance has grown in the last 10-15 years for a variety of reasons:

- As major corporations expanded in the seventies and eighties on a global basis, there was a growing separation of ownership and control, the professional manager was accumulating too much power - a constraint on this concentration of power was needed.
- Globalising financial and investment markets seek convergence on corporate practices and policies and hence are attracted to a "common model" of behaviour.
- The result today is a view of governance best practice which is largely designed to prevent directors being influenced too much by management. This is largely achieved by rules that ensure the independence of the board.
- As a result, in the Anglo Saxon world, we have achieved a large degree of convergence about what constitutes a so called 'best practice' board:
  - Board represents shareholders – not other constituencies
  - 8-12 persons
  - Mostly independent outsiders – mostly generalists (except CEO and possibly 1 or 2 executive directors)
  - Directors are not involved in management
  - Audit, Nomination and Remuneration Committees with control exercised by outsiders.
  - Board meets 8 – 10 times a year mostly for a day or even less.

- Contention exists in relation:
  - *To CEO / Chairman Roles*
  - The US is the obvious but very important example where a split role has little support – although efforts are being made for a non-executive director to be designated as the “lead director” to enable a “non-executive” view or decision to be reached on sensitive issues.
  - *To Equity Based Remuneration for Directors*
    Where support is growing for equity based remuneration for directors, but this was a complete anathema to the corporate governance movement until recently.

    Certainly incentive based remuneration is off the agenda on grounds that any issue that could cause management and directors to act in concert is an issue of potential conflict and therefore “taboo”, although stock options are being rapidly taken off the taboo list in the US
  - *To Processes for Assessing Board Performance*
    Where the issues concerning appraisals and whether they should be carried out collectively or on an individual basis are contentious. But there is a significant shift. Until 5 years ago, a formal process was rare and the evaluation was typically left to the Chairman to have a quiet talk with an errant director. Now, probably more than half of listed companies engage in some form of group self appraisal. However, appraisal of individual directors is still rare. One can however argue that this is probably anomalous in a business world in which accountability, feedback and constant improvement are accepted as givens.
  - *To Retirement Age and Tenure Limits*
    These are not universally agreed. There is justified resistance to rigid formulae which could see effective directors being forced off boards, however the issue cannot be ignored. I believe that the answer lies in better feedback and tighter renomination processes. There is of course a leadership issue here. If boards don’t deal themselves with performance issues they are hardly entitled to insist that management does.

Notwithstanding the unresolved issues, there is a large degree of convergence about corporate governance and many of the battles against – egotistical managers, corporate excesses and compliant boards, and for diversity and equal opportunity and for free and transparent disclosure, have been won or substantially progressed.

We can state that if today's standards of corporate governance and board independence had applied more generally in the past, we may not have seen the concentration and excesses of power which led to the spectacular downfall of a number of major corporations in this country and overseas.

There can be no doubt, in this context, that we need appropriate standards of corporate governance and that they play a key role in protecting the downside. This applies to both "old" economy companies and to "new" economy companies.

So what is the issue? What's the problem?

CONFORMANCE VERSUS PERFORMANCE

The core issue is that the focus on governance and conformance is obscuring the real drivers of board performance.

Let me list some of the contradictions and conflicts.

The Australian model with an independent chair, independent directors and 8/10 meetings a year is very close to what the governance activists would like to see as the norm. By way of comparison, many largely successful US multi nationals have vested much greater power in the chairman / CEO and senior management, and often have as few as 4 to 6 meetings a year.

Presumably the directors of the 3,600 Walmart stores in 10 countries have the same job description as the directors of David Jones who have 28 stores in Australia or of course Coles Myer which has 2,000 stores in Australia and New Zealand. One could postulate that in relation to corporate performance, the Walmart board, who meet only 4 times a year, would be in an inferior position to the boards of David Jones and Coles Myer, who meet close to monthly throughout the year. The results of course show that the Walmart board has delivered outstanding results for shareholders. This example could be replicated many times. The General Electric board meets less frequently than do most Australian boards and yet oversees a business that in market value terms is as large as the combined total of all companies listed on the

Australian Stock Exchange. What then are we to make of a board's role?

In the US, a separate chairman / CEO role cannot be countenanced yet we regard it as the norm. Around 80 percent of US companies combine the role. In the UK there are more executives on boards – in fact, over 50 percent of directors are executive directors in the UK. In Japan and Korea, insiders prevail (with little acceptance that an outsider can add value) and in Europe, advisers and others with relationships to the company are valued as directors.

Whilst there are surveys and surveys and there are assertions to the contrary, there is little soundly based empirical evidence which indicates that 'best practice' corporate governance delivers 'best practice' outcomes for shareholders over the long run. Australia's corporate performance would not support such a hypothesis.

Often too much attention to corporate governance can cloud a board's judgement. When you are surrounded by due diligence committees and numerous advisers in the board room you can be lulled into a sense of false security. The process becomes an end in itself and obscures the real issues which are at stake when boards have to exercise all their individual and collective skills and judgement to reach a decision on a major issue or new initiative. Smaller boards focussed on the core issues with relevant skills around the table have a much better chance of reaching the right decision. Business progress has always been about taking risk and you can never make big moves forward and eliminate risk by an excessive reliance on governance and due process. I note with great interest that some critics of the state of corporate governance are expressing concern that boards are starting to focus on process rather than content. A director can be sued not for a bad judgement but rather if it can be shown that he or she didn't take care. Now while this is reasonable, it runs the real risk that boards become overly concerned about ticking off the steps of the due diligence process and spend too little time coming to grips with the business issues that are involved.

In fact, there is an interesting tension built into our current governance approach which arguably predisposes our boards to be risk averse at a time when bold moves are often needed. Directors have little upside.

Certainly they do not share financially in the upside and if the business is very successful the management usually, and rightly, gets the credit. But if things go wrong, the reputations of directors can take a fearsome beating. Does this make boards risk averse? Do they have more downside than upside? Some argue that this asymmetry of incentives will prove costly, particularly in the new economic environment where technology and globalisation are requiring that companies take bold steps to reposition themselves.

The replacement of financial capital with intellectual capital as the driving force in many new economy companies also requires a re-think of the corporate governance principles. Founders, owners and managers of the new age technology companies are the owners of this intellectual capital and their entitlements at the board table need to be recognised – this is particularly so when key employees own large stakes in companies. Let me offer you an amazing statistic. For decades the average 'market to book value' ratio across all firms was a little over 1 times. The value creation game was to create value that exceeded the book investment. However, in the last few years, in the US for example, the ratio has blown out to around 6 times. And this isn't just because of the bull market. It represents a fundamental change in the economy which is that intellectual capital and not financial capital is the source of value in many industries. So any view of corporate governance which says that employees – particularly employee shareholders – have no place at a board table now needs to be reviewed.

This issue will have increasing relevance in traditional companies as they link up with the new information technology / on-line world. This process is one of the most critical issues facing many corporates today and the process will not be optimised if it is left to totally independent directors of mature age and general experience. We are going to have to mix and match!

The complexity of business and the speed of change generally in the global business world also requires a re-think of the traditional board models. How part time directors can stay sufficiently informed to be able to carry out their role of offering advice and challenge is something that boards will need to worry about. We will have to find new ways of exposing directors to the business. At present, the life of a typical director is spent mostly pre-reading the board papers alone, travelling to a meeting and then participating in quite formal discussion around a heavily panelled table that is in so many ways very remote from the business that the board oversees. In future, directors will have to spend more time, often in informal discussion, with management and employees, customers, suppliers and investors to gain a greater understanding of the business.

Private capital is also an emerging force – and we cannot simply dismiss the many successful private and entrepreneurial businesses today as having inappropriate forms of corporate governance, and we need to recognise and accommodate the views and needs of holders of private capital around our board tables. The current norms of governance try to ensure that directors stay clear of management involvement but when one looks at the ‘activist’ style of private equity investors and the success that they have, it prompts the obvious question. Should there be room for this style of director in a traditional public company?

In summary, it now seems to me that we are attempting to impose a uniform model irrespective of the size, complexity and domicile of the corporation.

We are now measuring the quality of governance performance by ticking the boxes in terms of attendance, committees, CEO / chairman roles, independent directors and so on. The corporate governance model is preoccupied with these aspects of board structure most probably because they can be observed from the outside. They are mostly interested in process and quality assurance and give scant attention to role, behaviour and skill base of a board either in general terms or in terms of the particular industry or circumstance of the company. Whether boards are effective depends more on whether the directors have good judgement, are hard working and smart and also able to contribute constructively to the working of a wider team. Unfortunately, these attributes cannot be measured from the outside. The trend to measure governance performance by listing the structures and processes in the Annual Report is trivialising the really important issue of board performance.

One of the most telling points about boards is that there is very little in the literature on company management and success and failure on how the performance of boards is a major factor in the overall scheme of things. Maybe this is an accurate reflection of a board’s relevance or maybe it explains why we have in the future to make boards much more relevant to the success and progress of a company.

ACHIEVING SUPERIOR BOARD PERFORMANCE

How do we facilitate, via board processes, better performance by this country's major corporations?

We need first to recognise the duality of the role of a board. We do need appropriate rules about composition, degree of independence, committees and so on, to enable boards to carry out their due diligence and watchdog roles.

We do need to have the right measure of corporate governance without letting the governance processes become an end in themselves. We do need to protect the downside.

We then need to identify and pursue those processes which can enable boards to deliver on their role, to enhance shareholder value, to work with management and help guide management so that the right decisions are made on strategy, business and management development, culture and on a company's response to its broader social and political pressures including its obligations to all its stakeholders.

In my view this will require rolling back some of the accepted corporate governance norms which will not be an easy task in view of the entrenched views.

In the time available let me touch briefly on some of the ways we can perhaps add value.

We clearly need better analysis and selection procedures which give weight to both the independence requirement and the need to achieve the appropriate specialised skills around the table. At present we tend to think in terms of all directors being the same but in future we will think more of the portfolio of skills we might need around the table. For example, independence is a fundamentally important attribute of a board but does it necessarily follow that all directors, except the CEO (or any executive directors), should be independent? Independence comes at a cost which is being less informed. What is important is to have a group of directors who are able to represent effectively the 'independent' attribute of a board but there may be value in having some other directors as well. In particular, this may involve recruiting some directors because of their relevant skills even if they don't pass the usual tests of independence.

This may mean more executive directors and more directors who have had industry experience or involvements, notwithstanding that such directors have shareholdings or advisory relationships with the company. We need to accommodate entrepreneurs around our board tables, not suppress or eject them. Conflict issues will arise, but in most instances of conflict around the board table the core issue is not the existence of conflict per se, but how it is handled.

In this context, it is worth repeating my earlier point which was that Australian boards are already arguably the most independent in the world but our results aren't anything to boast about. Our boards aren't led by an insider as they are in the US , they don't include many insiders as they do in the UK nor do they include bankers like they do in Germany. I am therefore arguing for a little more balance on the basis that a good board is required to be more than a policeman watching over management. It is supposed to agree the strategy, to monitor performance, approve investments and ensure risks are managed. This takes some insight and understanding as well as hard work and I believe that our boards will be better if we deliberately assemble more diverse skills around the table. Not all of these will be classified as independent.

In opting for a re-weighting between generalist and specialist skills around the board table I am personally changing a view that I have held for a long time.

We also need to review how we induct and keep directors updated on the specifics of the company and its industry and technology and where appropriate its regulatory context. For most companies this is a relatively ad hoc process. Most directors start with a 'rush of blood' in terms of initial familiarisation and then interest levels and other preoccupations and priorities intervene. We probably need to extend the very extensive training and development processes for employees and executives such that modules for non-executive directors are created and paid for by the company.

We will also need to focus board meetings more on the future – fewer high quality meetings of longer duration, often involving extensive local and overseas travel. This compares with the monthly board meeting which can often spend 80/90% of its time on a routine review of last month's performance and an over-emphasis with agenda items which relate to process and governance issues. As I have already said, those issues are important but they must not become preoccupations around the board table. Boards will find it helpful to agree the major issues that go to the heart of the success of the business over the next 5 to 10 years. This might be a list of no more than 5 to 7 issues. For many old economy companies it will include topics such as where the next decade of growth will come from, which of our businesses are candidates for exit and how do we attract and keep good people? There will be the inevitable e-commerce questions as well. The board will have to keep this list in front of itself and schedule discussions on these issues throughout the year. I think it inevitable too that individual directors get involved more deeply in particular issues. The reality of our world is that we all struggle to keep up. This will run against the grain of conventional good governance which sees all directors involved in everything. Maybe the use of more standing committees or ad hoc committees on growth and development issues will be a feature.

In all of this we need rules of engagement, both inside and outside the board room. We don’t want directors captured by management, nor do we want directors encroaching into management areas of authority and responsibility.

This needs careful and adroit handling of meetings and contact points and chairmen and CEOs and boards need to spend a considerable amount of time agreeing the ground rules. Management must more clearly understand the board’s needs and help them do their job. Directors must also understand how their demands for more information can be distracting or even viewed by management as a lack of trust.

We will also need to rethink the sort of information that comes to boards. We will see less monthly financial and operating data. Instead we will focus on this type of information several times each year, perhaps quarterly. Today, we often don’t see the forest for the trees. In future we will receive more information about the major future oriented issues that I just referred to, scheduling regular discussions and updates throughout the year. Most issues are complex and can’t be tidily resolved in the annual strategy retreat. The board needs to be involved in a regular discussion in which there is progressively reached a firm point of view.

We will also need to recut our information so that we have a clearer view about where value is being created or destroyed in the business. Many companies have made progress in developing shareholder value tools for evaluating their businesses and these need to be extended more comprehensively into board reporting. We also need to increase the time boards spend reviewing the progress of projects in companies. In this era of great change, our companies are typically a seething mass of change projects and their outcome is crucial to the future of the business. Boards would be better off if we spent less time reviewing last month's results and more time reviewing the progress of major projects

I am certainly coming more to a view that we need to introduce some more disciplined performance review processes on boards, both collectively and individually. I don't profess to know the right answers, but certainly we need to get away from the automatic assumptions about re-election and indefinite terms. Personally I am not in favour of a chairman controlled review of individual director performance, but there will be a right answer. All of these issues are being increasingly addressed by many companies, however a 'deft' touch will be required. As a starter I would like to see the renomination process tightened up and the hurdle raised somewhat. It should not only be the individual's decision to stand again. The other board members should express a view as well. I also believe that the opinion of senior management should at least be known. While this should not be binding – because directors are to represent shareholders and not management – the importance of what we now call upward feedback is obvious. In my experience, if management views a director as deadwood they are generally right.

An issue of increasing importance will be director remuneration – both its amount and the way it is paid.

Many companies large and small, will be asking for greater involvement by their directors inside and outside the board room. Companies with increasing involvements overseas are commonly asking their directors to spend one, two, three weeks overseas visiting operations and attending board meetings. In one company I am involved with this has the potential to at least double and potentially triple the time involvement by board members, notwithstanding that we will reduce the number of board meetings each year. I agree with these increased involvements. In my experience, the directors' grasp of the business issues and their knowledge of the management is greatly enhanced by the intense time taken together on such a trip

In view of the commitments and responsibilities involved, professional directors today cannot aspire to hold too many boards. Therefore to attract the right men and women, at the right age and with the right experience, we are going to have to lift remuneration levels, notwithstanding all the hassles this will cause at AGMs and in the media and from politicians. Part of this may be paid for by moving to somewhat smaller boards but not all.

We should be prepared to move towards more equity based remuneration, but recognise that many present and potential non-executive directors will need to be able to access sufficient levels of cash remuneration for their personal needs. You will be interested to know that in the US there is under way a significant reversal of previous governance wisdom on this subject. Stock options for directors are now accepted on the basis that they help to align board and shareholder interests.

I would be prepared to go further and introduce some component of risk based remuneration into the remuneration of directors. I endeavoured to do this in the last twelve months in relation to one of my involvements. Whilst I had the support of my colleagues, I obtained virtually nil support or encouragement from institutional shareholders.

Their argument is of course that incentive based remuneration could cause directors to act in concert with management, particularly in relation to the setting and achievement of performance hurdles. I disagree with this as I believe it is possible to establish externally based and assessed hurdles which will align the interests of employees, management, directors and shareholders. There is nevertheless a very strong view in the corporate and governance community that equity or incentive based remuneration for non-executive directors should be avoided. But as I have indicated, this view no longer holds in the US which, whether we like it or not, is making the running on governance issues. The weight of US equity investment means that they will largely dictate the standards and on this one they have already changed. We will see a different view emerging here too.

I am sure there are many other aspects and views about how we can enhance performance around our corporations' board tables, but I hope the areas I have talked about give you some food for thought and make a contribution to what I believe is a most important debate.

A common view is that "Boards only add value when a company is in trouble" – I don't dispute this but would go on and say that in the good times boards need to pass the "smell test" ie they have to have the individual and collective capacity to prevail over a CEO and his or her management team who are on a high or who are starting to believe they can walk on water. Most boards fail to act early enough when a company is heading into difficulties – in other words they fail the "smell test".

However, if we can reconstruct our boards to achieve the right balance of attributes and process between the watchdog and performance enhancing roles, we will have a better chance of passing the "smell test" and more importantly a better chance of enhancing shareholder value on an ongoing and long term basis.

COMMUNITY RESPONSIBILITY

The last aspect I want to touch upon is the role of the modern corporation today in the society in which we live. It is an important subject in itself and I can only touch on a few aspects tonight in the context of my earlier remarks about the role of boards and corporate governance.

It would be an over-simplification if I presented the two extremes of corporate responsibility as simply - on the one hand an almost total focus on the shareholders and on the other hand a broad stakeholder concept where the interests of the workforce, the community and other aspects of the social contract are enshrined in legislation, but I note in passing that those issues are being increasingly debated. This is particularly so in the context of a world where the gap between the haves and have nots is growing. Populist pressure may in the end demand that corporations become more involved in society.

In reality most modern corporations in Australia, UK and North America and in other developed countries have a very clear view about their obligations on a range of issues to the broader community, notwithstanding that a legal framework incorporating stakeholder obligations is not mandated by Government.

Notwithstanding this enlightened view, which I am certain is widely held and common practice, modern corporations are increasingly under attack from various stakeholders and interest groups or are being used tactically in pursuit of social or political agendas.

A four hour annual general meeting where environmentalists or opponents of, for example, genetically modified food, or unionists seeking to use shareholdings as a platform to run their own self interest agenda items is clear evidence of this. This is, I am sure, a preoccupation and issue of great relevance to many here tonight.

We are seeing in this country and overseas an increase in the proxy or shareholder initiative resolution at meetings on social and political agendas. Those issues often generate substantial media and public interest.

Clearly no one should argue against informed and intelligent criticism and debate on issues relevant to particular companies and industries. However this rarely characterises the nature of discussion on these issues around AGM times or in relation to contentious issues such as uranium mining. Some US companies are introducing public policy committees of the board to deal with the external political and public policy environment and to align corporate philanthropy to external policy considerations.

Whilst in the context of my remarks tonight I am not arguing for more institutionalised board committee type processes there is clearly a need for boards and management to be ahead of the game in terms of community issues rather than always being in defensive or reactive modes. As increased understanding and competence to deal with social and political issues is important in the skill set of management these days, so is a more sophisticated understanding of these issues necessary around the board table.

I often ponder as to whether we should attempt to promote more appropriate and relevant debate at AGMs. Our major shareholders are generally not focussed on annual meetings, but nevertheless such meetings should be a more worthwhile forum than exists at present and a stronger focus on the real business issues might help to put some of the activist agenda in its proper context.

In conclusion can I simply say that the pace of change in all respects is accelerating in this global, online and inter-connected world. This acceleration is affecting all aspects of our business and industries and involves all our various stakeholder and interest groups.

I hope my remarks tonight have highlighted why we do need to be continually reviewing the processes involved in creating, operating and maintaining our board structures in very dynamic and changing times. Progress on these fronts in a largely self-regulated environment is the best route to deliver and enhance shareholder value, to meet the needs and expectations of other stakeholders and to obtain community support for our ongoing businesses and future development.

Finally, as you are hosts of this oration, let me finally comment on the public affairs function. As the external political pressures on corporations have grown over the past decade it has been pleasing to see a corresponding growth in the competence and status of this specialist area of corporate expertise. The Centre for Corporate Public Affairs has clearly made an important contribution in this respect. At the same time we are at an early stage of a journey, and for companies to be successful in an increasingly complex and politically challenging world, there is need for continued professionalism and growth in public affairs management, understanding and support in line management and increased sophistication on these issues in our board rooms.

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