Deciding on People Governance

A Commitment
by the Board of Directors
and Management

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EPEGON
FOUNDATION

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"It doesn't make any sense to talk about business or ethics without talking about human beings"

R. Edward Freeman
2008

FOREWORD

This text is intended for every Chairman of the Board of Directors, director or member of management who wishes to forge an opinion on the relations that may exist between corporate governance and People governance.

The text is to be considered as a reasoning on People governance, its dimensions and implications. It is also an argument of conviction, because the Board of Directors and management regularly exert influence on the people issue by the decisions they take. Finally, it entails sharing good practices that are changing day by day, as certain Boards of Directors are beginning to introduce People governance, and many directors are showing interest in the matter.

The presentations on People governance given regularly to Boards of Directors explain better the challenges involved. There are two types of such challenges. One is instructional, because a multidimensional concept has to be clarified and transmitted to the directors; the other is political, because the Board of Directors may consider that their "bid book" is already extensive as such. It is therefore important to get them to discover that People governance is part of corporate governance, and that it is "a branch of the same tree."

In addition to the challenges cited above, there is another challenge just as indispensable, namely the need to monitor developments in corporate governance codes. These codes are regularly updated so as to be brought in line with a changing economic and social world.

The aim behind this text is therefore to contribute to a discussion on what corporate governance codes should include in terms of People governance.

The discussion on People governance was launched nearly two years ago, in particular by the *"People governance Committee"of Brussels* and the *"People governance Charter."* The discussion launched is now being taken up in every forum concerned by People governance, whether on the corporate or academic front.

The reader will find, in particular in the arguments developed in the different chapters, a set of ideas to be shared with colleagues on the Board of Directors – or such, at least, is the aim and wish.

INTRODUCTION

A director intent on pointing out one of the fundamental principles for the exercise of his or her remit, would probably have wished to subtitle the book: "*A freedom of commitment by the Board of Directors and its management*" – with due reason, perhaps!

Every company director must be able to act with complete independence of action and of thought, and contribute to the decisions taken by the Board of Directors without being hurried or constrained by actors inside and outside the company.

The task of a company director is a complex affair, because there are other requirements alongside this independence.

Whether a company is listed on the stock exchange or not, the fundamental principles vary little. In addition to being fully informed on the activities of the company and on its strategic plan and various consequences, the director attends to the interests of the shareholders and the legal conformity of the decisions taken, always bearing in mind that everything done by the Board of Directors is done in the general interest and in accordance with a code of business ethics. Furthermore, a director personally makes sure that he or she is involved, efficient and regularly (re)trained according to the specific needs and developments of the company.

A director's task requires considerable investment in terms of time and energy[1], and the constant application of rules of good governance and good conduct. Such a task is complex, because a company managed by the Board of Directors and management

1. It is one of the reasons why most codes of corporate governance prefer that a director does not accept more than five mandates.

is a complex system and, in particular, a complex people system, influenced by many decisions taken by the Board of Directors.

The ethical approach of the Board of Directors and of each director taken individually is inherent to their actions and decisions at all times. Ethics here refers to a general operating philosophy adopted by all and translated into concrete rules and observable behavior and conduct.

The director finds him/herself in a dynamics where, after asking the essential questions, after contributing to the decisions and the application thereof, he or she must, together with the Board of Directors, proceed to a *take stock* of the outcome, i.e. assess the *coherence* between what was said and what was actually done.

The director has a cross-sectional approach to the company!

Though valuable information, methodology and questionnaire tools, codes, charts or other inspirational texts will not *necessarily* bring about the desired behavior.

The challenge is behavioral!

A director is free to act and to decide, he oversees his/her own actions and the ethics that s/he wishes to see respected as well as the behavior in exercising his or her remit and duties as a director.

People governance is one of these ethical aspects that can concern a director. S/he may decently decide freely to make more of an effort to identify, understand better, and apply People governance for the benefit of the largest number of people in the company, including for the benefit of the Board of Directors.

A director is a pragmatic, morally acceptable leader. S/he wants to see decisions that s/he has taken brought to fruition!

The decisions relating to corporate governance in Europe will depend on the codes of corporate governance in force, and the diversity of national legal instruments, such as the applicable commercial or companies' codes. Conversely, even though the social dimension of People governance is influenced by the legal apparatus, each company may decide freely to get involved in People governance according to a consensus reached by and between the Board of Directors and Management. This does not constitute a change in the role of the Director, but complements his or her mission as an ethical leader.

A code of ethics is drawn up in many companies. The Board of Directors and management are the compliance officers of the people governance practiced in the company!

The first section in this text is an analysis, and comprises four chapters. It should first make it possible to underscore the vital need to shift the discourse of the stakeholders on People governance. Then, People governance must be defined and the syncretism it represents for the consolidation of its nine dimensions set out. Finally, it is important to underscore how ethical leadership is a necessary consequence of People governance.

The first chapter broaches the question of the stakeholders and the development of the argument concerning the discourse for this approach. The development of modes of social dialogue and of European legislation is giving workforce an increasingly clearer place. The new question is no longer the theory that juxtaposes shareholders and stakeholders, but rather *how* the approach by the stakeholders can contribute concretely to the parties, and in particular to certain parties more "legitimate" than others: the workforce. The approach by management of the stakeholders becomes an efficient toolbox for implementing People governance – *it is not People governance.* For that, it is necessary to go from a *management of* the stakeholders to a *management by* the stakeholders.

The second chapter provides clarifications on the definition and dimensions of People governance. People governance is a *multidimensional and cross-sectional* reading of the company. It is concurrently an ethical and a decisional reading. It comprises nine dimensions, in particular as regards the strategic and operational choices. It is integrative, because it sees to cohere all the people dimensions and consequences of the choices made by the company.

The *third chapter* tackles the dimensions of People governance. These are all arguments to elucidate the people aspect of these dimensions that should be included in an approach to People governance.

The *fourth chapter* puts forward the principles of ethical leadership, the challenges that the ethical leader faces and his or her capacity to erect the pillars of ethical leadership, from the frame of reference desired by the company, to the desired behavior – the "*driving belt*" being the decision-making process.

The second section in this text concerns the decision of People governance and comprises one chapter.

The fifth chapter enlightens the director on the "*People governance Committee*" in Brussels and sets out the spirit of the "*People governance Charter.*" The Board of Directors is the institutional point of entry of People governance, and it empowers, by *note directive,* without relinquishing control, irrespective of the place where the issue of People governance is treated in the company. This chapter is concluded with some fifty questions called the "*People governance Questionnaire,*" which is useful in the decision-making process of People governance.

The third section in this text describes the application of People governance and in particular, the presentation and analysis of the "*Partena note directive.*" A testimonial by the CEO of Partena, who's Board of Directors, was the first to apply the charter and to draw up its "note directive," is included in this section which comprises two chapters.

The sixth chapter draws up a set of proposals to move forward and have the issue of People governance make progress in Boards of Directors.

The seventh chapter proposes to have the issue of People governance included in the new generation of the corporate governance code. Accordingly, this draft is a proposition to every EU Member State.

STAKEHOLDER MANAGEMENT

1.1. STAKEHOLDERS AND STAKES

Governance cannot be reduced to a simple delegation of power by the shareholder to the company. It entails more generally a deployment of every approach capable of creating value for all the stakeholders in the project and the activity of the company.

The debate that juxtaposes the stockholder governance model to the stakeholder governance model is increasingly becoming obsolete. It is very rare to meet company executives and managers nowadays that do not support the need to include all stakeholders in their governance model. The concept of "stakeholders" has been defined by the Stanford Research Institute :

« *The much-quoted Stanford Research Institute's (SRI) definition of stakeholders as "those groups without whose support the organization would cease to exist" (SRI 1963; quoted in Freeman, 1984 :31)* clearly implies that corporate managers must induce constructive contribution from their stakeholders to accomplish their own desired results (e.g. perpetuation of the organization, profitability, stability, growth)"[2].

The concept was developed by Freeman (1984) in organizational terms. For him, the strategic management of a company can only be strengthened, become more efficient, and the shareholders better rewarded if it takes into account the interests of the other stakeholders of the organization. A stakeholder is most often defined as follows :

2. In Donaldson, Thomas & Preston, Lee E. (1995), "*The stakeholder theory of the corporation: concepts, evidence, and implications*", Academy of Management Review, Vol. 20, N°.1, pp 65-91.

« a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives"[3].

The list of stakeholders cited most frequently in the literature includes stakeholders and other investors, employees, customers, suppliers, as well as the civil society.[4] The concept of stakeholder management has been developed in different ways.

Donaldson and Preston (1995) describe four stakeholder theories. This approach is :

Descriptive : While the corporation is viewed as a constellation of cooperative and competitive interests possessing intrinsic value.

Instrumental : While this approach establishes a framework for examining connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals. The underlying principle here is that companies that invest in stakeholder management obtain good results in terms of profit, stability and growth.

Normative : While this theory defends the principle according to which all stakeholders and the legitimate interests they represent, have intrinsically the same value in the company.

« The interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its

3. Freeman, R. Edward. 1984. *Strategic management : A stakeholder approach.* Boston : Pitman, 25.
4. Freeman draws a distinction between primary shareholders who have a direct impact on the running of the company, and secondary shareholders who have an indirect impact. Freeman, R. Edward, Harrison J.S., Wicks A. C.2007. *Managing for Stakeholders. Survival, Reputation, and Success.* Yale University Press. New Haven & London, pp 48-52.

own stake and not merely because of its ability to further the interest of some other group, such as the shareowners". [5]

The concept of stakeholders is most often cited in the literature in the context of a moral presupposition according to which the managers and executives of a company must integrate the interests expressed by said stakeholders in their decisions.

Managerial : In the broad sense of the term, which also implies and recommends practices and attitudes that lead to the constitution of stakeholder management.

« (...) It (also) recommends attitudes, structures and practices that, taken together, constitute stakeholder management (...) Stakeholder management requires, as its key attributes, simultaneous attention to the legitimate interest of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case- decision making. (...)." [6]

In this context, management is not necessarily considered as the only one responsible for stakeholder management; rather, any internal or external actor with an impact on the company is too. Stakeholder managerial practices actually applied by management implement the decisions taken. That said, it is necessary to go beyond the (simple) observation that companies have stakeholders who must be taken duly into account.

The postulate to the effect that stakeholder management is bound to improve the economic performance of the company is the most developed one and is essentially supported with philosophical and normative arguments; often by way of moral imperative that business managers and executives must integrate

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5. Donaldson and Preston (1995), p. 67.
6. Donaldson and Preston (1995) p. 68.

the interests of the stakeholders and the resulting actions in the decisions they make. This assumes also that the decision-making power lies with the managerial bodies of the company, and that only they have a real capacity to have the interests of stakeholders respected and to enable the latter to share in the profits and benefits (in the wide sense of the terms) and other added value generated by the company. In this sense, stakeholder management contributes to corporate management in looking particularly after the interests of the shareholders. Managing stakeholder's means above all that due account is taken of their expectations and problems in the decisions and in the running of the company. The core discussion between proponents of the corporate governance model for shareholders and the model of governance by the stakeholders (who include shareholders!) is how to take the different interests into consideration. This is no neutral endeavor, but has an influence on the corporate model chosen. Boatright[7] broaches the issue by underscoring the characteristics of the two approaches :

> « *(...) the prevailing system of corporate governance may be expressed in three related propositions (1) that shareholders ought to have control;(2) that managers have a fiduciary duty to serve shareholder interests alone; and (3) that the objective of the firm ought to be the maximization of shareholder wealth (...) stakeholder management can be sated (...) (1) all stakeholders have the right to participate in corporate decisions that affect them; (2) managers have a fiduciary duty to serve the interests of all stakeholder groups, and (3) the objective of the firm ought to be the promotion of all interests and not those of shareholders alone(...)".*

7. Boatright, John R. (2006), « *What's Wrong-and What's Right- with Stakeholder Management",* Journal of Private Enterprise, Volume XXI, Number 2, pp. 106-130.

The discussion thus pertains to the decision-making processes, the distribution of wealth and to taking the interests of all stakeholders into consideration. In essence, Boatright[8] underscores that what the two approaches share is that the company enables "*each corporate constituency or stakeholder group*" to get the maximum profit from their commitment to cooperate in order to achieve results.

What divides the stakeholders, bearing in mind that the profits of the company are largely determined by the market, is knowing whether the role of corporate governance is to secure a fair return on what the market allocates to each stakeholder. As some profits do not come from the market, governance by the stakeholders is inclined to believe that such returns should be provided by the managers. These statements are refuted by Boatright :[9]

« *(...) the non-shareholder interests are usually better protected or served by various contractual agreements and legal rules rather than a reliance on management decision making. So far, advocates of stakeholder management have not presented a compelling case to the contrary*".

He also adds :

"*(...) Questions about how the wealth created by firms should be distributed are separate from the concerns of governance and are answered by the market and by the government.*"

It is correct to believe that the company provides a return to its different components and stakeholders. The guarantees for such a fair return are essentially contractual or fixed by law.

8. Boatright (2006) p. 116
9. Boatright (2006) p. 119

Managing stakeholders means taking sufficient account of their interests to ensure their cooperation. This must be done in a double framework : first, an institutional framework, based on the laws, regulations and other agreements; second, an ethical framework, based on the definition of codes of conduct and guidelines on the matter. The managers and executives of the company must clarify and honor their commitments to stakeholder management. Seen from this perspective, stakeholder management is considered as an *aid tool* for corporate management; it remains a constructive approach, one that strengthens its credibility as well as managerial and ethical implications in relation to corporate governance. This shifts the discussion back to the way in which the chief executive officers and managers of the company operate. Stakeholder management becomes a discussion on the direction to be given to the company and on how it is to operate. This in turn requires managers and executives to work on a definition in this sense and to express, in a structured manner, the directions they want to give to business developments. Another integral part of these challenges is the definition of the responsibilities of managers and executives as to the basic managerial practices, essentially the types of decision-making processes to be implemented as well as the relations desired with and between stakeholders. Freeman, Wicks and Bidhan[10] underscore these aspects :

« (...).Stakeholder theory pushes managers to embrace the pragmatic and pluralistic approach and recommend we avoid the philosophical and single theory approach (...). The very idea of value creation and trade is intimately connected to the idea of creating value for stakeholders. Business is about putting to-

10. Freeman, R. Edward, Wicks, Andrew C., and Bidhan, Parmar, "*Stakeholder Theory and "The Corporate Objective Revisited"*, Organization Science, Vol. 15 N°3, May-June 2004, pp. 364-369.

gether a deal so that (...) all (stakeholders) win continuously over time".

The discussion on the management of relations with and between stakeholders acquires particular importance, as it repositions the notion of profit (and of the performance of the company in general), as the result of sound management of the company rather than as a goal in itself. Freeman, Wicks and Bidhan :[11]

"Certainly shareholders are an important constituent and profits are a critical feature of this activity, but concern for profits is the result rather than the driver in the process of value creation."

Putting the discussion on stakeholder management in such terms sheds new light, because the development of the company is deemed to be strongly based on social cooperation and value creation, the benefits of which constitute one of the positive consequences. This also refers, indirectly, to what Jones and Wicks[12] have called the "convergent stakeholder theory" that stems from the principle of "co-influence" or "co-action" of ethical (normative) and instrumental approaches, by underscoring the relations between stakeholders and the expected results for the company. The authors underscore the importance of the moral aspects :[13]

« (...) we argue that explicitly and unabashedly moral convergent stakeholder theory is a new way of theorizing about organizations and is, therefore, potentially transformational (...). Managers in search of missions that are both moral and practical may be inspired to look at their organizations differently.

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11. Freeman, R. Edward, Wicks, Andrew C., and Bidhan, Parmar, p. 365.
12. Jones Thomas M., Wicks Andrew C., 1999. "Convergent stakeholder theory", Academy of Management Review, Vol. 24 N° 2, pp 206-221.
13. Op. cit., p. 218

(...) convergent stakeholder theory can show us how corporate managers can behave morally in a stakeholder context (...) manager can create moral business environments and make them work."

It is worth pointing out again, that corporate governance cannot be reduced to a simple delegation of power by the shareholder to the manager of the company. It involves, more generally, the implementation of all approaches that can create value for all the stakeholders in the company's project. In the quest to create value, the various stakeholders do not necessarily have the same impact nor the same legitimacy in regard to the generation of such as value. This gives rise to the question of a hierarchical structure of stakeholders. From this perspective, the shareholders and the employees are the first contributors (primary stakeholders) in the value chain; followed by the other contributors (secondary stakeholders), i.e. the customers, suppliers, and finally the organizations and institutions that contribute to the success of the company.

One of the key questions is still how to develop relations with stakeholders that are both ethically valid and feasible, leading to the desired results, as well as visible and communicable. The constituent actions for the answers include people governance.

1.2. The employees as stakeholders

Establishing and cultivating relations with all the stakeholders and securing their cooperation falls under the management and policy dimensions of the powers that be. There is an increasing consensus that good governance covers not only the legitimate needs of the shareholders but also those of the employees. In this sense, corporate governance is akin to the search for a balance to meet the needs of all, and its responsibility is extended to the management of the various social, economic, financial and other risks.

The development of social dialogue shows that the trade union world wants to get more and more involved in the strategic choices carried out by the manager. As such, it wishes to become an actor of corporate governance. The stance of the European Trade Union Confederation (ETUC)[14] is quite telling as to the desired positioning.

The organizations that represent employees are endeavoring, via the social dialogue, to gain influence on the strategic decision-making processes of the company. The social dialogue has a tendency of inviting itself to the table of governance, particularly in management bodies. The field is open, at this time, i.e. the principles of good governance as enshrined in governance codes do not explicitly express the interests of the "economic community at work," a force considered essentially "productive," governed by social legislation, whereas the manager is concerned chiefly by the company's law. This "productive force" is not limited to the company's employees but includes also any party with a contractual connection with such a company, whether through subcontracting or other forms of outsourcing of the workforce, such as temporary work.

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14. Extracted from the resolution adopted by the ETUC Executive Committee in their meeting held in Brussels on 14-15 March 2006. *"EU company law initiatives should therefore endorse the emergence and evolution of a European model of corporate governance, fostering company boards' orientation towards long-term value creation, high-trust labour relations, workers' participation in companies' decision-making processes and societal responsibility. Not only shareholders, but also workers, other citizens and the community at large have an interest in good corporate governance. Accordingly, the European corporate governance framework should lay down proper institutional conditions for companies to promote long-term profitability and employment prospects, define mechanisms that prevent mismanagement and guarantee transparency and accountability with regard to investments and their returns."*

It is advisable to be clear on one point, in order not to engage in the wrong discussion. People governance does not, a priori, represent the active participation of employees in the corporate governance, but rather supports that employees and their interests are taken into account in important decision-making processes. It is, as a matter of priority, a commitment to be undertaken and implemented by the company manager and his managerial staff in accordance with his free corporate choices and the local or European legislation in force. The demands by employee representatives are already widely stated in most European legislation and measures. In this sense, the principles laid down by the OECD[15] underscore the importance of the role of the different stakeholders :

"The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."

The illustration of these principles contains in particular the following two observations :

" Performance-enhancing mechanisms for employee participation should be permitted to develop." (IV.C).

"Stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this." (IV.E).

The employees are involved in the life of the company through their representation bodies, who may or may not sit on the pub-

15. OECD Principles of Corporate Governance, (2004)*"IV. The Role of Stakeholders in Corporate Governance," p.21.*

lic or private boards of directors. Employees are informed and consulted and in certain cases, as in Germany or Portugal, a co-management (co-determination) scheme is introduced. Operating as such, the "social dialogue" moves closer to corporate governance, essentially on the productive dimension of the company, as strategic decisions are only rarely submitted to social approval, but are an exclusive attribute of the Board of Directors. The commitment to people governance must be expressed at this latter level, integrated in the attitudes of the directors and management, and made easier to implement.

There are other mechanisms that enable to the social dialogue to get involved in corporate governance (and vice-versa!). The European Works Council[16] is a body established for the purposes of informing and consulting employees on transnational issues that require the prior agreement of the company and a special negotiating group composed of representatives of workers and of management. The central management is responsible for creating the conditions and for releasing the means and resources required to establish said works council. The statute of the European company (SE)[17] underscores, particularly in its recitals, the involvement of employees :

« (21) Directive 2001/86 EC is designed to ensure that employees have a right of involvement in issues and decisions affecting the life of their SE. Other social and labor legislation questions, in particular the right of employees to information

16. Cf. Council Directive 94/45/EC of 22 September 1994 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees.
17. Cf. Official Journal of the European Communities, Council Regulation (E) no. 2157/2001 of 8 October 2001 on the Statute for a European company (SE). (19) The rules on the involvement of employees in the European company are laid down in Directive 2001/86/EC(4), and those provisions thus form an indissociable complement to this Regulation and must be applied concomitantly.

and consultation as regulated in the Member States, are governed by the national provisions applicable, under the same conditions, to public limited-liability companies."

The introduction of an information, consultation, or co-management mechanism reflects part of the implementation of the principles of people management defined upstream from production and operations, upstream from people resources management, and with due account of the applicable legislation. The areas of the discussions are quite broad, whether at the country or at EU level, and different initiatives are identified, such as employee shareholding, in particular.

The place of the employee, as a stakeholder to be integrated in the question of corporate management, can be seen as a reality enshrined either in a legal arsenal or in practices stemming from the free choices made by the company.

This dimension will also be developed in the section on relations with the institutional actors.

1.3. A lever for people governance

The *Business Ethics Quarterly*[18] (April 2008) conducted, in conjunction with a symposium[19], a historical review of stakeholder theories from the beginning of the 1990s to date, and tried to identify the essential issues for the future of this train of thought. Citing a study[20] conducted among one hundred "Fortune 500" companies, the authors noted that only ten compa-

18. Bradley R. Agle, Thomas Donaldson, R. Edward Freeman, Michael C. Jensen, Ronald K. Mitchell, and Donna J. Wood. (2008), *"Dialogue : toward superior stakeholder Theory"*, Business Ethics Quarterly, Vol 18 N°2, pp. 152-190.
19. "2007 Academy of Management symposium on *superior stakeholder* theory."
20. Agle & Agle (2007). Study conducted on the Internet, entailing an analysis of corporate missions, values, and philosophies.

nies had adopted a *"pure stockholder"* approach; twenty-two had opted for a *"legally and ethically bounded stockholder focus;"* sixty four for an approach "maximizing the well-being of all stakeholders;" and finally, two other companies had opted for *"solving social problems while making a fair profit."* The question still remains whether stakeholder theory will continue to develop, bearing in mind that it is no longer a matter of whether it will, but of how it will do so! A review of recent literature has yielded a multiple questionnaire.[21]

- How can stakeholder theory help business ethics by providing useful ideas for the management processes?
- How can answers respectful of all parties (normative approach) be provided outside the conventional "shareholder/stakeholder" discussion, when the interests of the company cannot be developed because of the unpredictability of the market?
- How can the stockholder approach provide ideals and models that can be used by management to run the company more efficiently?

These questions have an operational and pragmatic direction, and it is precisely the direction that the stakeholder approach must take if it wants to continue to develop and to serve companies and their management. Freeman[22] underscores this aspect, by calling, not for a normative (justificatory) approach, but for the implementation of simple and practical ideals, and goes as far as to use the concept of *"useful ethics."* For him, it makes no sense to separate ethical from commercial questions, but is more of a matter to integrate them in the people issue :

21. Business Ethics Quarterly, (April 2008), Vol 18 N°2, pp. 154 -159.
22. R. Edward Freeman (2008) *"Ending the so-Called – Friedman-Freeman – Debate"*, Business Ethics Quarterly, Vol 18 N°2, pp. 162-166.

« We need a conceptual apparatus in business that does not commit the separation fallacy » (...)"we would have a more useful ethics if we build into our normative ideals the need to understand how we create value and trade. That's the piece that oftentimes is missing in discussions about corporate responsibility."

"(...) An implicit assumption here needs to be made explicit, and that is : it doesn't make any sense to talk about business or ethics without talking about people beings "(...)They are no theories of whole, fully integrated people beings, with names, families, and pasts, i.e. , theories about actual businesspeople. The integration thesis implies integrating business and ethics, around the ideas of what a people being is and can be".

He underscores the importance of rejecting the separation theory (where business and ethics are separated), defends the integrationist theory (integrate everything : people, business and ethics), and strengthens the theory of ownership :

« I actually believe that most people, most of the time, want to take responsibility for the results of their actions on others. It is easy to see how such an idea is simply incompatible with the separation fallacy. If business is on one side and ethics on the other, then we'll have a gap that may come to be known as "corporate social responsibility."

For Freeman, irrespective of the decisions that a manager or an organization is led to take, it is useful to ask the following questions :

- For whom is value created or not created, or who benefits or is affected by this decision?
- Have the rights of a stakeholder been respected?

- What "type of person (manager)" would one be, if a decision were taken in a particular direction or another?

The author underscores that it is important to find ideas and concepts to integrate business and ethics, and states;

« *(...) stakeholder theory is an idea about what it means to be well-managed (...).*

1.4. Tailoring discourse and behavior improvement

The discussion on stakeholder theory has clearly made considerable progress in recent years. The topical question, from the perspective of people governance, no longer comes down so much to defending the existence of stakeholders and their interests, because this line of argument has become widely accepted and popular. What is changing in the approach is, on the one hand, the place to be accorded to the people issue in the dynamics of the stakeholder model, and on the other, a wish for a more concrete and more visible application of such intentions. A company that has achieved profitability results has not necessarily reached all its objectives for the entire company and its stakeholders. Some researchers agree on the fact that in order to make headway towards a new dimension of the stakeholder approach, it is necessary to have, at the very least :

- A practical and behavioral approach to stakeholder management;
- A targeted performance assessment in this sense.

The next development deemed essential is to have the people issue evolve from a question of "well-being" to a question of "people governance." All stakeholders have intrinsically the same value, but their impact on the running of the company differs considerably. The people issue, the men and women, the employees, must figure, together with the shareholders, high on the hierarchical stakeholder structure. The integrated dimensions of an approach to people governance must bolster managers to clarify and respect their commitments to stakeholder management.

The approach to stakeholder management becomes an efficient toolbox for implementing people governance. There are at least four implementing dimensions of people governance :

The manager The Board of Directors

Ethics	Integration of the human dimension at stakeholder level
Decision-making	Preparing decisions by integrating the human dimension Making directors and managers assume their responsibilities

The manager The Board of Directors - Management - Staff

Operational aspects	Ensure that decisions are implemented and applied in the spirit indicated Evaluate performance
Integrative	Ensure the integration and collaboration of all parties regarding the development of the organisation and its objectives

Figure 1. Dimensions of people governance

The approach to people governance by stakeholder management theories can make a contribution only if a set of new ideals and new methods are provided to integrate people issues even better in corporate governance. Our managers and executives need concrete ideals about the multidisciplinary approach of people governance. It is one of the preconditions for implementing such an approach in management bodies. Stakeholder management is not people governance, but an ethical and managerial tool for implementing said governance. Implementation essentially means appropriate receptiveness, competence and attitudes from the people in charge of managing companies. The main challenge of the future will be behavioral. A decision can have an impact on all the components of a company, so the people governance aspects must be duly assumed. The discourse must develop towards a culture of commitment and a clear remit, and be assessed in relation to the projects connected to the primary stakeholders that are a company's employees.

Though indirectly comprehensible, it is necessary to go from management **of the** stakeholders to management **by** the stakeholders – a source of modernizing, improving and transforming the current managerial approach. In this connection, people governance needs management by the stakeholders — not only the theory described above and offering a frame of reference, but also and particularly, coherence in visible actions and a place actually recognized for employees in the decision-making process. It is because management by stakeholders leads to a cross-sectional approach to the company that people Governance needs the stakeholder approach.

PEOPLE GOVERNANCE

2.1. Definition of people governance

The Brussels "People governance" Committee,[23] bringing together some twenty personalities from public and private enterprises, published a charter[24] on people governance in 2007.

The committee made sure to indicate in the introduction to its text the non-restrictive nature of introducing people governance for a Board of Directors.

"Each and every company must take a position on people governance and adopt a definition and the scope of people governance within its ranks. Nevertheless, a fundamental definition is required as a working basis for any and all discussions on people governance."

The Committee returns regularly to this notion of Independence of the management bodies on the application of people governance. The charter broaches the subject implicitly and explicitly in different places.

The committee defines the concept as follows:

23. The "Paris People governance committee" launched its activities in October 2008.
24. The Brussels People governance Committee, 15 February 2007. "*La gouvernance humaine renforce la gouvernance d'entreprise. Charte à l'intention des dirigeants d'entreprise et de leurs Conseils d'Administration* », EPEGON Foundation. This charter is presented extensively in Chapter 7 herein.

"People governance is the establishment of rules[25] and ethical attitudes that lead to the integration of people-related issues in all stages of the decision-making process of the governing bodies of the company."

The application of people governance has a wide spectrum and is geared to the long term. It comprises three major directions:

- It is geared to enriching the decision-making process, and thus the corporate governance.
- It is geared to strengthen the socio-professional bond and everything that has a sustainable meaning for the members of the company, in particular the sharing of common values, the attainment of objectives and the profitability of the company.
- It promotes a sense of responsibility for the "community at work."[26]

The decision-making processes may be:

- *Economic*
- *Managerial*
- *Institutional*
- *Technological*

Economic process

The economic processes broach the responsibility part that each actor of the community at work bears for achieving the de-

25. The word "principles" will soon replace "rules" here in a new version of the definition and of the Charter.
26. The Committee preferred this expression to "corporate," in an effort to show that the persons involved in a corporate project constitute an ideally mutually assisting group with a strong sense of belonging.

sired profitability and, in a more general manner, for the direct or indirect contribution to the realization of the vision and mission of the company.

Managerial process

The managerial and social practices bring together the actors, resulting in a chain of requirements, and modes of relations, commitments, duties and obligations.

Technological process

The technological processes broach the organization of work and thus the modification of the professional time and space. The technological processes may, under certain aspects, be standardizing and egalitarian, but may also lead to inequalities and worsening of relations.

Institutional process

The institutional processes concern the establishment of social and collective relations through legal bodies such as the works council, or the shop stewards' committee..."

A discussion of people governance starts with the postulate that it strengthens corporate governance, and that it is the extension thereof and, as it were, a "branch of the same tree." t is first of all an act of the company's executives and management; for the latter give the impetus for positioning the development dynamics of a company in such a way as to include people governance in corporate governance.

For executives and management, the difficulty of the people governance approach consists of solving a complex managerial equation, in which it is advisable to :

- Give meaning to, raise awareness about and define the people governance principles specific to the company;
- Provide the people governance relays to the internal and external stakeholders in order to implement these principles;
- Develop competencies at all levels of the company to ensure the perpetuation of the people governance approach.

At issue is not how to add an ethical approach to the company's activities, but to create managerial practices expressed intrinsically by people governance with ethical consequences. The Board of Directors and management know what is and what is not ethical in their environment as regards the stakeholders. They have to find the means so as to go from raised awareness for articulating a set of fundamental values of the company, to expressing a chain of responsibilities identified and supported by the largest number of parties. This chain of responsibilities is most often expressed through decision-making processes relating to the different areas of action of the company. Each decision-making process entails a dimension relating to people governance. The Board of Directors and the management must assess the importance thereof each time. The exercise requires separating - at times artificially - certain dimensions because they are so closely interdependent. It is easy to understand, for instance, that a particular technological choice, such as an IT infrastructure and its specific applications, can have an impact on the way employees cooperate with and inform each other. These modes of cooperation can themselves lead to specific managerial practices and a particular corporate climate. Certain managerial practices in the end evidently stem from certain decisions taken upstream concerning a technological choice.[27] These technological choices comprise a people governance dimension iden-

27. The demonstration is very rapid but does have illustrative value.

tifiable by the chief executive officers and the management of the company. As such, each decision-making process comprises a people governance dimension, the value and importance of which depends on the positioning that the company wants to give it. The decision areas comprising a people dimension are numerous and interdependent.

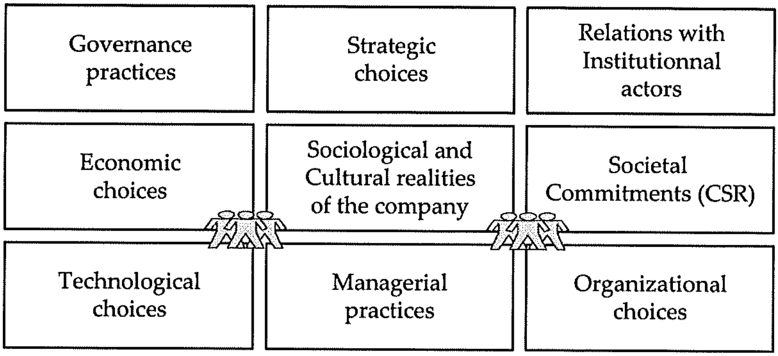

Figure 2. The nine dimensions of People Governance

The task of the Board of Directors and the management is a constant search for a balance between the areas of activities and the components of the company, trying constantly to manage the risk so as to achieve the missions and goals of the company.

To broach people governance, an executive and his management must first clarify and identify the people dimensions that seem to them pertinent and consequential for the company's internal and external activities. People governance enriches, gives guidance and angles of analysis for preparing decisions, detects and reveals obvious or more subtle people dimensions buried in our corporate choices.

2.2. Widening the definition

Taking into consideration the analysis, by the Board of Directors and the management, of the people dimensions of their corporate activities, and the integration of the understanding of the people decision-making stakes, we can suggest widening the definition to future "People governance Committees":

People governance is the implementation of ethical principles and attitudes that lead to the integration of people-related questions in all stages of the decision-making process by the governing bodies of the company. It makes it possible to act coherently and to strengthen all the people dimensions connected to the internal and external activities of the company.

People governance naturally deals with the people dimension in the company, but also ensures a healthy supervision, by the chief executive officer and his management, of the consequences of their choices and practices on people. There is the upstream and the downstream, the risk management of people governance and the effective governance practices for consequences that produce cooperation, social and managerial performance and well-being ...

Figure 2 must therefore be expanded.

People governance is a "*useful ethics,*" the least common denominator of which consists of the attitudes of the actors present.

It puts people high on the hierarchical structure of the stakeholders dedicated to the company.

It is decisional in that it makes it possible to identify the elements that prepare and help implement "decisions that have

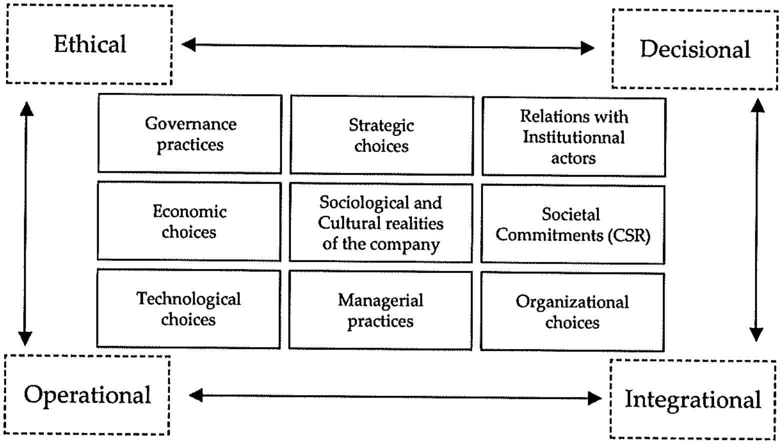

Figure 3. The interdependence of nine dimensions

an impact on people" while identifying the risks and raising the awareness of the parties concerned.

It is operational when the actors commit themselves to a coherent implementation of the governance principles through appropriate attitudes and express the volition of a cooperating company.

It is integrational in that it takes account of the interdependence of the people governance dimensions and activities of the company while getting the actors to cooperate.

People governance needs the pragmatism and realism of the Board of Directors and the management of the company. Together, they must define the guidelines[28] of their people governance.

28. Cf. the definition of "note directive" in the Brussels Charter.

DIMENSIONS OF PEOPLE GOVERNANCE

3.1. Governance practices

As the subject is vast, only the dimensions of people governance are considered in what follows.

The way in which the governance model chosen by the company is structured and applied, comprises dimensions of people governance that the Board of Directors and the management of the company have to face. The national codes and reports on good corporate governance do not broach the people governance dimension explicitly. Attention can nonetheless be drawn to a set of provisions that fall under this dimension by examining the contents of codes used in Europe. A comparative study (already old, but very interesting from our point of view) of corporate governance codes in Europe conducted by the firm of Weil, Gotshal & Manges[29] underscores, already in its table of contents, that the people governance dimension is present, directly or indirectly, in the practices of corporate governances. Consequently, the following chapters in the study may prove of interest for people governance purposes:

"Selecting, Inviting and Orienting New Directors "
"Evaluating Board Performance"
"Formal Evaluation of the Chief Executive Officer"
"Succession planning/Management development"

29. B. Holly J. Gregory (2002) "*Comparative Matrix of Corporate Governance Codes Relevant To The European Union And Its Member States*" Weil, Gotshal & Manges LLP. The study is available in its entirety on the Internet.

The study is based on the texts of the following organizations:

- OECD *Principles of Corporate Governance, 1999* (revised in 2004).
- ICGN -International Corporate Governance Network: *Statements on global Corporate Governance Principles, 1999* (revised in 2005)
- *Euroshareholders Corporate Governance Guidelines* (Pan-European (2000)).
- EASD European Association of Securities Dealers: *Corporate Principles and Recommendations* (Pan- European (2000)

No fewer than thirty-three codes of the European Union are analyzed in the study. The countries concerned are: Germany, the United Kingdom, Belgium[30], Denmark, Spain, Finland, France[31], Greece, Ireland, Italy, the Netherlands, Portugal, and Sweden.

A cross-sectional analysis of these codes is needed to identify the dimensions of people governance that company managers face.

Pre-selection, selection and reception of the Director

The managing bodies have to think regularly about recruiting one or more directors as stipulated by the articles of association or as required by the current situation of the Board. This task is complex and comprises in particular a selection and recruitment dimension. This task is quite important, bearing in

30. The Belgian corporate governance code was published in December 2004. The study contains the recommendations of the Federation of Belgian Enterprises (1998) (FEB/VB), of the Banking and Finance Commission (1998) (CBF) (today the CBFA), The Director's Charter (2000).

31. For France, there is the analysis of the Vienot I & II reports, as well as the code of the French Financial Management Association (AFG), and the Association of French Investment Funds and Societies (ASFFI). The Bouton report (2002) came after the publication of the study.

mind that the particular profile can have a direct or indirect impact on the life of the Board, its dynamism and collegiality. The new recruited colleague may also have an impact on the decisions that the Board would have to take.

All European codes agree[32] in vesting final responsibility for recruitment with the managers, and thus either with the Board of Directors or, under other governance modes, a Supervisory Board.[33] A committee will be set up and assume different forms depending on the country and its particular code (appointment, personnel, search committee). The observable dimensions in this pre-selection and selection process are highly diversified and require vigilance and a sizeable investment from the Board of Directors, particularly from its Chairman. The study by B. Holly J. Gregory (2002) reveals a set of dimensions of people governance that have to be managed by the Board of Directors and such committees.

The next diagram attempts to summarize the different dimensions contained in codes in Europe which are important for the purposes of people governance.

32. In view of the current state of our research.
33. France allows different options — the unitary option (the Board of Directors or the Chairman of the board may or may not combine the duties of Chairman and general manager), the dual option (a Supervisory Board and a board of managers).

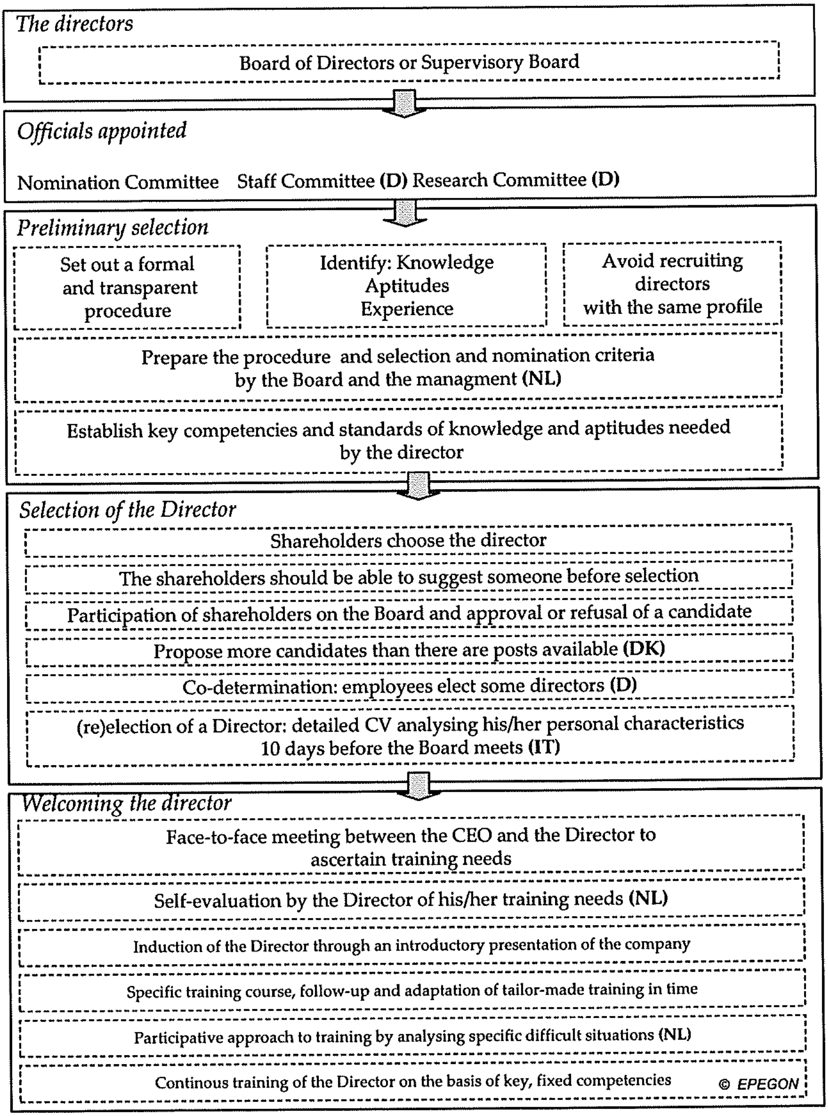

Figure 4. Selection of the Director in Europe: dimensions of the human governance

The Chairman of the Board of Directors, the directors and the committee appointed to supervise and to propose candidates for the board must be multidimensional, comprising, e.g.:

- The direct or indirect influence of the shareholders;
- The group dynamics of the Board of Directors;
- The general meeting approving the Board's proposals;
- A consensus reached on the profile and key competencies needed for candidate directors;
- The involvement of top management in the profiling process (for executive/non-executive director);
- The process for interviewing and assessing the capabilities of candidates;
- The evaluation and presentation report on candidates to the Board and to the general meeting of shareholders.

A cross-sectional examination of the codes in Europe yields interesting indications on the dynamic management of the changing composition of the Board, such as:

- In Denmark, recruit a new director for a year first (a sort of probation period)[34]
- Avoid recruiting too many directors with the same profile so as to ensure diversity.[35]

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34. Richard Breeden, former president of the Stock Exchange Commission (SEC) in the United States, from 1989 to 1993, published a report in 2003 for the court overseeing the bankruptcy of WorldCom, comprising 78 proposals. One of these proposals was to replace a director every year so as to prevent the collegiality of the Board leading to partiality.

35. Also worth noting for Belgium is the "bill to promote a balanced representation of men and women in Boards of Directors of public economic undertakings and companies that have issued calls for investment (Submitted by Mrs. Sabine de Bethune et al.), 3-2088/1 ». Belgian Senate, Session of 2006-2007, 27 February 2007. This bill was not adopted.

- In Italy, conduct an analysis of the personality traits of the candidates.
- Nominate more candidates than seats available (Denmark).
- Introduce a plan to develop personalized knowledge and to monitor the director selected.

A subject related to the selection of directors comprises the appointment or remuneration committees set up by the Board of Directors. The essential question is to ensure maximum independence for the members of these committees.

When it comes to bolstering or confirming a part of the Board, the Chairman and his board are involved in a real selection process as well as in the management of useful competencies for the proper performance of the Directors. Many Boards seek advice from outside the company, as recommended, for that matter, in several European codes.

The notions of "competencies" and "competency management" constitute a real issue for the Chairman of the Board of Directors, as well as for the committee he has set up for the nominations, selection of directors and initiatives relating to a possible succession plan in the Board, or concerning the main executive functions.

Managing competencies is an ideal lever for achieving the objectives set or assigned by the Board of Directors. It also means more guarantees for bringing behavior and attitudes duly in line.

Competency management allows for an integrated approach to the different aspects that must be taken into account, in particular in order to reach the operating objectives set.

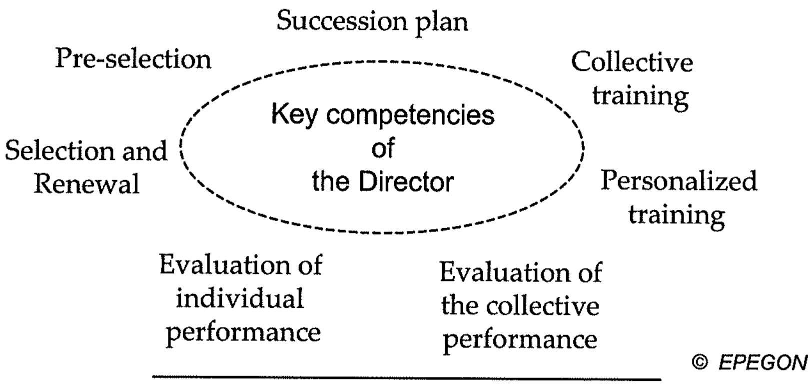

Figure 5. Management of the Director's competencies

The dimensions of people management discussed constitute one of the elements in the director selection dynamics. They contribute to a proactive management of the composition of the Board and the configuration of its combined experience, and moreover contribute widely to the objectives assigned to it.

Managing the competencies of the board means managing the resources thereof. Developing Directors, as resources, means placing a strategic capital at the company's disposal, on which the Chairman can "draw" according to the major interests of the company. Thus managed, the company has at all times a Board of Directors capable of taking up the different challenges, thereby consolidating its capacity to adapt and to manage risks.

As such, the management of competencies and the selection of directors are stakes for people governance and contribute to strengthening corporate governance.

Performance of the Board of Directors

The Board of Directors is called upon to ensure coherence between the application of its policies and commitments on the one hand, and the behavior and performance of its executive teams on the other. Bearing in mind that, beside the quantitative management and supervision elements, the dynamics of executive performance include an aspect relating to managerial practices, and more broadly, the attitudes to the commitments and responsibilities assumed collectively and personally by each Director. The Board of Directors has to take account of these different elements in assessing the performance of executive management.

In terms of people governance, the question arises as follows: which method does the Board of Directors adopt to assume in particular the people aspect of risk management as well as the evaluation of its own performance and that of the executive management, and how (and this is fundamental!) does it integrate this approach in its decision-making processes? The study by B. Holly J. Gregory (2002) again contains a set of cross-sectional elements in European corporate governance codes. The diagram below is an attempt to provide a summary.

Conditions for Board operations

Balance between the number of independent and executive directors	Balance of responsibilities and respective importance of Directors	Knowledge of the Individual situation of the Directors (other commitments)

Existence of a certain degree of openness of the Board Diversity in its composition

Mastery of the decision-making process

Evaluation of the performance of the Board Behaviour and attitudes

Applying a code of good conduct

The directors effectively follow the activity of the company and that of its management

Special involvement of independent Directors in assessing the operation of the Board and relationship with shareholders

Under the leadership of the Chairman, continuous and systematic evaluation of the Board and the committees. Evaluation of the Chairman of the Board and the committees. Providing information to shareholders

Evaluation of relationships between the Board and top management

Involvement of top management in evaluating other executive functions

Evaluation of the performance of the Board Evaluation results

Evaluation report on the operation and composition of the Board AGM for self-evaluation of the Board

Evaluation report on the work done by the new directors to avoid automatic re-election. Discussion between the CEO and the Director evaluated

Continous training of directors and self-evaluation of their needs

Separation or failure to re-elect a director for reasons of integrity, attitude or competence

Figure 6. Evaluation of the performance of the Board
Dimensions of people governance

From the point of view of the dimensions of people governance, these elements can be divided into three categories:

a- Operating conditions of the Board of Directors

One of the performance factors of the Board is its composition, and the way it is organized and manages its deliberating and decision-making processes. The type or quality of the committees it has set up also plays a significant role in shedding light on the issues at hand and taking decisions, while ensuring the autonomy and independence of the discussions. Harmonizing such an environment requires that the Chairman must find the right profiles and establish a balance between a spirit of initiative and compliance with the standards and values that the Board has defined.

b- Fundamental behavior and attitudes for good governance

For many actors in the company, the involvement and motivation of the Directors have a non-negligible impact on performance. The quality of the group dynamics is crucial.

The Board of Directors is a group, but especially a team with its own dynamics that must ensure quality operation and even "production". The complexity of the composition of certain Boards, the presence of what are not necessarily always converging interests (type and composition of the shareholding, for instance) may lead to operating dynamics that are difficult to manage at times. In addition, there is the possible (normally beneficial) diversity of director profiles, as well as the frequency of their meetings. The quality of relations between the Board, the Chairman of the Board and the chief executive officer management will also influence these group dynamics. The way in which the Chairman of the Board handles and presents an item to the Board may also be decisive. Properly developed, all these elements contribute to people governance that strengthens corporate governance.

Personal attendance rate of the Directors

From the perspective of people governance, it is not only the attendance rate, but also the participation, level of motivation, knowledge (of information) and finally preparation of the director that must be taken into consideration. Like any group that is motivated to achieve an objective, the Board of Directors has to develop and integrate practices that bolster its people performance.

Quality of relations with the stakeholders

As underscored in the previous chapter, the Board is obviously not the sole actor that has to develop quality relations with the stakeholders. The quality of relation, particularly the "internal governance"[36] aspect, will depend largely on the way that the Board and its management have integrated the expectations of the different stakeholders in their visible and communicated decisions and actions. The chief executive officer management and its teams constitute an important actor. The way in which the Board of Directors supports management, and the quality of the relations between the management committee and the Board, also constitute an essential element that can be included in the people governance "note directive".

36. Concerning the internal stakeholders of the company.

c- Methods and products for evaluating the performance of the Board of Directors

Training

This dimension is probably the one most cited by Board of Directors, both public and private, as well as by associations that develop training schemes to improve the performance of directors and their Boards.

The training needs are gauged either by the Director himself (self-assessment) or by means of reception interview with the Chairman (reception of new Directors). A particular topical issue for the company, such as the development of new markets or new services may lead the Board to take decisions about continuing training. Finally, the position of company director requires a set of generic competencies for performing one's remit efficiently. It is not necessarily a simple task to manage the training programs of a Board of Directors inasmuch as most of them are not restrictive and require an investment in terms of time. This dimension of governance is, once again, incumbent upon the Chairman.

Assessment

The Chairman and his Board have a firm grip here on a real assessment process with its objectives and methods. The assessment interview by the Chairman and/or the ad hoc committee, the annual self-assessment meeting of the Board, the assessment of new directors under the auspices of the Chairman, the assessment report to the Board and to the general meeting of shareholders, and the dismissal of a Director are all specific subjects that fall under performance management.

This exercise requires the definition of a set of parameters upstream, such as:

- A consensus on the competencies of the Director (the Directory competency model);
- The definition, in advance, of what is to be assessed in regard to the operation of the Board;
- An agreement on and good understanding of the method and tools to be used;
- How the results will be used (information for the shareholders, deduction of training objectives).

Beyond these "technical aspects", there is a prominent people factor relating to behavior that is or is not compliant with the expectations, managerial practices and leadership, in line (or not) with the established principles and provisions.

The managers of the company have a firm grasp on the people governance dimension of how they wish to limit the behavioral risk connected to corporate governance practices.

3.2. Strategic choices

The charting and implementation of the strategy are in essence difficult tasks because they presuppose the mobilization of stakeholders and their determination to achieve the development goals of the company. To get sustainable results, it is important to bring about a relational and behavioral situation in phase with the desired principles. The strategic exercise, from its charting to its implementation, comprises many dimensions of people governance. There are many parties involved in the implementation and execution of the strategy, and all the major lines are generally concerned, such as: investments, and convergence between companies, recruitments and reorganizations. In such a context, tensions between the parties become particularly complex. Consequently, in this type of exercise, the spirit in which the ethical leadership expresses itself remains a decisive element of people governance. To manage to integrate the people question in the strategic decision-making process, where it seems pertinent to the chief executive officer and the management of the company, is an uncommon challenge, which must be carefully considered upstream from the process itself. This type of reflection can be formalized in the "note directive" on the company's people governance.[37] Once the strategy of the company has been defined, it must be adjusted, as required by circumstances "along the way" and be implemented in and transmitted to the rest of the organization. The implementation method also constitutes a dimension of people governance that the Board and management have to take into account. The study by Henry Mintzberg on strategic planning broaches in particular the question of efficient strategic planning as a means for devising and implementing strategy, but also the very creation of the strategy well before the plan takes shape.

In a chapter entitled "Some real traps in planning,"10 he underscores the managerial and behavioral aspect of implementation:

"More specifically, the question is not simply whether managers feel committed to planning. It is also: a) to what extent does planning feel committed in regard to the managers; b) to what extent does involvement in the planning entail involvement in the strategy charting process, a motivation for the strate-

37. Cf. supra, a note directive is one of the recommendations of the people governance charter.
38. Mintzberg Henry, 1994. *Grandeur et décadence de la planification stratégique, Dunod, pp.170-171*

gies thus devised, and in the final spurt, a commitment by the organization in real implementing actions; and c) to what extent does the very nature of the planning elicit a commitment from managers to its cause".

These essential questions tally with a people governance dimension. Mintzberg shows that the joint exercise of strategy creation and planning cannot be systematically efficient. He points out that strategy creation is an intuitive and qualitative art (summary), one not necessarily limited to a structured and quantified form, with a rigorous structuring of (hard) data and hence linked to the environment. The respective actors, planners and managers of the company are sometimes in a "centralized" dynamic where they first feel they own the planning process and then that they own the strategic idea to be applied; and sometimes in a "decentralized" dynamic, where the planners implement and facilitate the roll-out of the strategy in the units of the company, without necessarily having a say in the process. Kathleen M. Eisenhardt,[39] professor of strategy at Stanford University, studied the behavior of executives and their teams (in American, European and Asian companies) whilst drawing up their strategies. In a chapter entitled "Strategy as strategic decision making, she draws her conclusions on what effective decision makers do:

« Effective decision makers create strategy by

- Building collective intuition that enhances the ability of top-management teams to see threats and opportunities sooner and more accurately.

39. In Michael A. Cusumano and Constantinos C. Markides, *"Strategic Thinking for the next economy,"* MIT Sloan Management Review, 2001, pp. 85-101.

- *Stimulating quick conflict to improve the quality of strategic thinking without sacrificing significant time.*
- *Maintaining a disciplined pace that drives the decision process to a timely conclusion.*
- *Defusing political behavior that creates unproductive conflict and waste of time".*

At stake for people governance will be to facilitate the process of devising and implementing strategy or strategies so that, irrespective of who are the parties concerned, they feel appreciated and involved for their real contributions to the final result, and are mobilized through all the components of the company. The field of expression of this exercise is the company's need of a certain stability so as to implement its plans as well as to adapt to the many – by definition unpredictable – changes, bearing in mind that a strategy is never fixed by an exercise in constant adaptation. Such a strategy, and its accompanying plans, must therefore be reviewable and even abandoned. Behavioral psychology plays a non-negligible role in drawing up the strategy, the relations that can exist between "designers" and "planners", and their attitude to change. The unpredictability of the environment inside and outside the company adds to the difficulty. The choices made in terms of the methodology used to draw up and implement the strategy will have a direct impact on the quality of relations between the actors and the level of "political" relations.

The strategic definition and implementation process that falls under many dimensions of people governance, is complex, and requires a non-"mechanistic" and "linear" approach. Mintzberg underscores this aspect :[40]

40. Mintzberg (1999) op.cit. pp. 405-406

"(...) Many actors intervene in the process, including professionals who, in their own work, create individually most of the important product-market strategies by deciding on the way in which they will serve their own clients. The direct influence of directors is often limited to logistical support strategies and, together with the professionals who carry out the operational work, they have a tendency to engage in collectively chosen complex and interactive processes that assume a collegial as well as political turn. The result is a rather fragmented strategy development process, in which the strategies of the organization are typically the aggregation of all sorts of individual and collective strategies (...)."

The essential question remains: how can the people dimension be integrated in the company's decision-making process and in particular in the strategy creation and dissemination process? What is the role and impact of the Board of Directors whose remit includes the strategy of the company (the sole competency it cannot delegate)?

Several factors must be taken into account in order to broach the question of people governance as an element that strengthens corporate governance: the influence of the market (impact on the decision-making process), the strategy charting and adoption process, the way it is applied, the specific sociological context of the company (managerial culture and practices), the balance of power, the management of diverging interests, the financial and organizational context, and the state of motivation of all stakeholders in the strategic exercise.

Integrating these different dimensions presupposes a clear position (to be stated in the note directive) by the chief executive officer and management, and also the commitment of the latter to compliance with the announced decisions and practices to achieve the goals of the strategy. To comply with the announced practice is to give meaning to the people governance project adopted by the company through its note directive.

What questions can the Board of Directors and the managers of the company address?

The people governance questionnaire in connection with the strategy choices is part of a continuum comprising the following elements:

- The content of the strategic choices
- The definition process(es) of suchlike choices
- The implementation process(es)
- Any adjustments or revisions thereof.

Executives and their teams as well as the ways they cooperate require particular attention in the approach to people governance, a "branch of the tree" of corporate governance. The chief executive officer of a company and his management have a complex job to do in their effort to integrate the people governance questionnaire for the benefit of the company and its stakeholders.

3.3. Relations with institutional actors

Institutional actors have a capacity to influence and even to exert power over social life in the company. Their impact, objectives and action methods must be integrated in a people governance approach. The social dialogue is drawing increasingly closer to governance owing to its determination to be involved in the strategic discussions of the company and to participate in the decision-making processes. The European Trade Union Confederation (ETUC)[41] expresses clearly this volition and:

« (...) *believes that a corporate governance model which motivates capital and labor to agree on all key elements of a company's policy and management will certainly perform better in the long run. (...) it is vital therefore that a company's board and employees should be entitled to avoid unilateral changes in the governance mechanisms resulting from major changes in the company's capital structure (...) In addition, overall labour standards should be unaffected by a company's financial transactions (...)* ».

The dispersion and internationalization of the shareholding of companies are behind a regain in the volition of trade unions to exert influence on corporate governance. The hypothesis is made by Aline Conchon[42]:

« *(...) internationalization, through the globalization of the economy and of collective actions, gives new impetus for the renewal of French trade union demands (...) as can be gauged (...) from the recent works and attainments of the economic and social actors relating to corporate governance.*"

The author recounts, for one, the increase, in recent years, in the power of foreign investment funds that hold more than half of the capital of the CAC 40 companies, and, by correlation, the globalization of the legal arsenal and in particular restrictive legislation (acts and directives) and other codes relating to gover-

41. Extracted from a Resolution adopted by the ETUC Executive Committee in their meeting held in Brussels on 14-15 March 2006. Source: the Internet.
42. Conchon A. (2007) « *Quand la mondialisation dynamise l'action collective: les revendications syndicales en faveur des administrateurs salariés en France* », paper delivered at Journées Internationales de Sociologie du Travail, 20-22 June 2007, London, p.1.

nance. The globalization of governance corresponds to the globalization of finance.

New industrial and financial rationales have made strong progress in recent years; for instance, institutional investors, i.e. pension funds, or the massive redundancies at European and even world scale owing to challenges of the stock exchange. The transformation of such rationales has in turn transformed the social dialogue, and is not neutral on people governance.

The example of financial globalization provided by pension funds is striking. These funds are institutional actors that have a deferred impact for employees and in part make their pay conditional to the financial results of the company. They are managed by external private or public actors, depending on the case, and the trade unions want to control and influence the risks taken by the company in managing these funds. It is a way, for them, to draw closer to corporate governance and to participate in the decision-making process.

Intervening in the name of employees, as stakeholders, and defending their interests in the Board of Directors or in the Supervisory Board therefore constitutes a major demand. As underscored in the previous chapter, people governance does not necessarily demand employee participation in the decision-making processes, but wishes to ensure that their interests are taken into account in such important processes. As likewise previously underscored, the detractors of the stakeholder theory consider that social legislation and labor law cover widely the interests of employees, while companies law covers the interests of shareholders and managers.

The discussion on employee demands to take part in the decision-making process of the Board of Directors has become largely European. In a publication with the suggestive title "*The* *forgotten Resource: Corporate Governance and Employee Board-Level Representation,"* Lionel Fulton (2007)[43] addresses the question of board-level employee participation in France, the Netherlands, Sweden and the United Kingdom. He underscores the decisive influence of British corporate governance codes on the charting of other European codes to explain why the trade unions are not invited to participate in drawing up such codes, and adds:

" (...) whatever the reason, the final outcome is clear: employees have been largely written out of the script (...)."

Such absence from the codes does not prevent national legislations from creating representation structures. The situation however is very different in the 4 countries studied.

In Sweden, the "*Board Representation Act*"[44] enables employee representation on the Board of Directors. Companies with more than 25 employees can have two representatives (and as many alternates) on the Board. Three representatives (and as many alternates) are possible for companies with more than 1000 employees. As boards have reduced their size considerably in recent years, the author points out that personnel representatives wind up accounting for a third of the board members on average. In most areas, with the exception of collective bargaining, for instance, their rights and responsibilities are the same as those of the other members of the board.

In terms of people governance, the ratio of the number of representatives is not neutral and can influence the group dynamics of the board. The author seems to imply the contrary, and

43. Lionel Fulton (2007), *"The forgotten Resource: Corporate Governance and Employee Board-Level Representation. The Situation in France, the Netherlands, Sweden and the UK"*, published by the Hans Böckler Stiftung.
44. Lionel Fulton (2007), op.cit., p.24

points out that surveys have shown a rather extensive passive attitude on the part of employee representatives on these boards:[45]

" (...) The survey from 1998 reveals that employee representatives act somewhat cautiously and are generally rather passive during board meetings. (...) This rather passive role does not apply where questions concerning personnel matters, reorganization, production and work environment issues are being discussed. In these areas they are "rather" or "very" active (...)".

In France, employee representation on the Board of Directors is possible in two ways: either by being elected by employees, or by representing shareholding employees. Fulton (2007) cites a third possibility for a non-member of the Board to be present and have only a right to ask questions.

A chapter entitled *"Board-level employee representation mechanisms,"* a study[46] conducted by the French Directors' Institute (IFA), contains the following introduction:

"When speaking about employee representatives on the Board of Directors, some may juxtapose grass-roots over-representation with the pursuit of the company's object and the tranquility the board needs in order to do quality work. It is therefore necessary to distinguish employee directors who are members of the works council from employee representatives of a different origin, way of appointment and objectives."

The French framework, complex and diversified, is not at issue here. It is interesting, however, to underscore a set of facts on the matter, in particular the perceptible drop in the number of directors (IFA 2006)[47] elected directly by employees, due in

45. Lionel Fulton (2007), op.cit., p.80
46. IFA, *"Les administrateurs salariés: un atout pour la gouvernance des entreprises françaises,"* (28 February 2006). www.ifa-asso.com
47. IFA (2006), p.6.

particular to company mergers and globalization, whereas representatives of shareholding employees are increasing, due in particular to the increase in the number of shareholding employees, pension savings and a people resources policy geared to keeping employees.

From the perspective of governance, we may note in particular that the legal provisions allow for the appointment of representatives of shareholding employees:

> *"(...) similar to those enabling a shareholder with a significant stake to demand a certain number of seats for his representatives on the Board of Directors (...)."*

As to the representativeness of employee directors on the Board of Directors, the study (IFA 2006) points out that: *"51% of the respondents who sit on a board have one or more employee directors."*[48] Discussing directors elected directly by the employees, Fulton (2007)[49] underscores that only eleven CAC 40 companies have employee representatives on their board. Once appointed to the board, the representative resigns all trade union remits. In sociological terms, the appointees are apparently often trade unionists at the end of their career with extensive experience and integration in the company. As to added value, the study (IFA 2006)[50] underscores (and this is not neutral from the perspective of people governance), that:

> *« (...) The questions connected to motivation and the construction of a spirit specific to the company are often put forward as a competitiveness and differentiation factor by many management specialists. The study shows that the presence of employee directors can get such values to make progress, all the*

48. These are directly elected employee directors who repre
49. Lionel Fulton (2007), op.cit., p.27
50. IFA (2006), p.8

more so as the long-term employee commitment to the company can, where applicable, counterbalance the volatility of certain shareholders and certain managers (...)."

The discourse seems quite constructive on the matter and frames the discussion on people governance in a most original fashion from the perspective of modes of governance and the management of social and institutional relations.

Having analyzed 17 reports on corporate governance, and in particular the French report among these 17, A. Conchon[51] concludes that:

« *(...) if we stick solely to the French reports, the primacy accorded to the shareholding value rather than to a partnership view of the company is even more flagrant, as 7 reports follow this line against three that recommend institutionalizing the appointment of employee directors in all companies.*"

The recognition of stakeholders inreports relating to corporate governance

No account taken of the noti of stakeholders	Employees taken into account as stakeholders but not represented in the Board of directors or the supervisory board	Employees taken into account as stakeholders and legitimate members of the board of directors or the supervisory board
- Clément Report (2003) - Vienot II Report (1999) - Bouton Report (2002) - AFEP-MEDEF Report (2003) - AFG Report (2007)	- Institut Montaigne (2003) - Winter Report (2002) - Vienot Report(1995)	- ETUC (2003) - *Douste_Blazy (2003)* - *Barbier de La Serre (2003)* - *IFGE (2006)* - IFA (2005) - IFA (2006) - OECD (1999) - OECD (2004a) - OECD (2005)

In Italics: Reports dealing with employee representation on boards of directors, but without recommending its promotion.
Source: A. Conchon, op. cit. (2007).

51. A. Conchon. (2007) op. cit. p. 6

The table above illustrates the reports studied.

The author concludes, in particular, that the involvement of French trade unions in corporate governance issues is essentially a reaction to the predominance of the shareholding discourse, and also the result of their strengthened participation in European and world discussions on governance.

In the Netherlands, there are also representatives on the Supervisory Board, who are co-opted by the works council, but who are not employees[52]. It is the Supervisory Board which, depending on the desired board profile, nominates candidates, but it is the general meeting of shareholders that appoints the members of the Supervisory Board. The general meeting of shareholders also has the powers to dismiss the entire board by majority vote, subject to certain conditions being met. Fulton mentions a study that indicates that only 51% of the boards of directors of the 250 companies consulted in the Netherlands had availed themselves of their right. This right was used in particular under consensus on appointment practices by and between management, the Board of Directors and the Supervisory Board. The attitude of management and in particular that of the Chairman of the board proved decisive.

In terms of people governance, it is not neutral, and the author[53] cites the reasons for the success and failures of cooperation between the three actors given by the chairmen of the boards. The factors of success are as follows :

52. Lionel Fulton (2007), op.cit., p.34
53. Lionel Fulton (2007), op.cit., p.34

« *The reasons works council chairs gave for making nominations were:*

- *to create a better relationship with the Supervisory Board;*
- *to improve the composition of the Supervisory Board by making it more balanced; and*
- *because the Supervisory Board had taken the initiative.*

As to the factors of failure:

" *The reasons they gave for not making nominations were:*

- *because they were involved too late;*
- *having no qualified candidates;*
- *the perception that the Supervisory Board would not accept the candidate;*
- *lack of close contact with the Supervisory Board; and*
- *too great a focus on operational concerns.*

When the proposals are made by the works council, the study mentioned shows that they are accepted by the Supervisory Board in 80% of the cases.

It is worth noting that the factors of success and of failure include the quality of relations, the composition and thus the succession plan of the board, the pre-selection of skilled candidates, and the communication. These different dimensions were discussed in the part relating to the performance of the board.

In the United Kingdom, it is exceptional[54] for employees to sit on the Board of Directors of public or private companies; on

54. Lionel Fulton (2007), op.cit., p.39

the other hand, they are frequently directors next to pension fund management firms. As this subject falls outside our scope here, it will not be broached further.

More than a will to participate

In addition to this desire of the social actors to participate in the decision-making process, legislation[55] is emerging that has a significant impact on the social dialogue and thus on the relations with the employee representation authorities such as the works council, whereby the European works council (EWC) covers international matters.

The oldest European works councils have been active for 15 years and constitute an essential body of the international social dialogue. The Report drawn up by Peter Kerkhofs (2006)[56] underscores a set of data relating to the positioning of the EWC. There are 2204 companies[57] concerned by the EWC employing a total of 23.6 million workers, but only 35% of them have actually established an EWC. Of the 319 multinationals active in the 15 EEE countries at least, 65.2% have established an EWC.[58] When we examine the movement to create EWCs for companies that carry out activities in the new Member States, 53% of 1142 such companies still do not have an EWC, and of those that do (32%), there are no representatives from the new Member States.[59] The report is voluminous and includes an in-depth sectoral analy-

55. Directive 2002/14/EC establishing a general framework for informing and consulting employees in the European Community – Directive 94/45/EC on the establishment of a European Works council – Directive 2001/86/EC supplementing the Statute for a European company with regard to the involvement of employees.
56. Peter Kerckhofs (2006), « *Comité d'entreprises européens, faits et chiffres 2006* », *ETHUI-REHS*. ETHUI-REHS stems from the merger of three trade union institutes.
57. Peter Kerckhofs (2006), op.cit. p.33
58. Peter Kerckhofs (2006), op.cit. p.37
59. Peter Kerckhofs (2006), op.cit. p.41

sis.[60] These EWCs are in line with developments of European legislation.

A concrete example can be provided by Directive 200/78/EC[61] "establishing a general framework for equal treatment in employment and occupation." This example is topical and influences the life of companies. With this Directive, the Council of the European Union wants to ban all forms of discrimination in access to employment and remuneration, especially as regards the age[62] of the worker. The purpose of the directive is stated as follows :[63]

"The purpose of this directive is to lay down a general framework for combating discrimination on the grounds of religion or belief, disability, age or sexual orientation as regards employment and occupation, with a view to putting into effect in the Member States the principle of equal treatment.

The scope of the directive is quite broad[64] :

" With the limits of the area of competence conferred on the Community, this directive shall apply to all persons, as regards both the public and private sectors, including public bodies, in relation to (...) c) employment and working conditions, including dismissals and pay; (...) ».

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60. www.etui-rehs.org
61. 2000/78/EE (27 November 2000)ec.europa.eu/employment_social/fundamental_rights/pdf/legisln/2000_78_fr.pdf -
62. Different countries had asked for an additional period to transpose the provisions relating to discrimination on the basis of age. "Of all the grounds of discrimination, age and disability are particularly difficult to transpose into national law primarily because of the potential impact on the labor market. Prohibiting discrimination on grounds of age and disability also challenges long-held assumptions about people's abilities and their place in society."
63. 2000/78/EC, p. L303/18. Cf. Annex 1
64. 2000/78/EC, p. L303/19. Cf. Annex 1

In light of the foregoing, we may conclude that age cannot be a criterion for determining pay. The application of such a directive has an impact on the choices of people governance.

People governance indicators can be identified inasmuch as they would not concern only the implementation of the directive for the operating positions of the company, but also the chief executive officers as well as the management. The latter will define the commitment and types of practices desired by the company to meet the objectives of the directive. These "indicators" are in particular connected to social dialogue requirements:[65]

"1. Member States shall, in accordance with their national tradition and practice, take adequate measures to promote dialogue between the social partners with a view to fostering equal treatment, collective agreements, codes of conduct and through research or exchange of experiences and good practices.

2. Where consistent with their national traditions and practices, Member States shall encourage the social partners, without prejudice to their autonomy, to conclude at the appropriate level, agreements laying down anti-discrimination rules in the fields referred to in Article 3 which fall within the scope of collective bargaining. These agreements shall respect the minimum requirements laid down by this Directive and by the relevant national implementing measures."

The discrimination criterion relating to age is already applied by several EU Member States and will soon be applied by others in accordance with actions filed with the Council of Europe. This is far from being neutral for companies. The transposition will have implications in particular on the necessary transformations of pay systems. The age criterion is one of the essen-

65. 2000/78/CE, p. L303/21. Article 13 Social dialogue

tial pillars at this time, whether in the private or the public sector. The chief executive officers and their management will have to give the people governance guidelines desired.

European debate

The European debate on the reform of corporate governance and more particularly on the possible participation of employees in the management of the company (18 of the 27 Member States, of which only 6 for public enterprises, apply a national or European legislation that requires employee participation in the Board of Directors) is particularly lively and interesting from the point of view of people governance. It puts again in perspective the influence of the American corporate governance model on our European practices, avoiding the debate which oppose pits shareholder against stakeholder theories.

The European trade unions take the enhancement in the quality of industrial relations as the main action model, with employee participation in the decision-making process as the central point. Chief executive officers will have to continue to integrate this dimension in their people governance choices and practices and to position this debate clearly in the company.

3.4. Corporate social responsibility (CSR)

The European Commission Green Paper[66] defines CSR as follows:

"*Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*"

66. Commission of the European Communities, "*Promoting a European framework for Corporate Social Responsibility,*" Brussels, 18 July 2001, COM (20010 366 final).

A distinction is drawn between the internal and external dimensions of social responsibility.

The points broached for the internal dimension are:

- *"People resources management"*
- *"Health and safety work"*
- *"Adaptation to change"*

The evolving European debate on CSR positions the concept of sustainable enterprise differently from that of "stakeholders" on several points, and does not put employees specifically to the fore. Sigurt Vitols (2008)[67] underscores that the concept of sustainable enterprise is multidimensional and comprises not only environmental but also (internal and external) social objectives, including health, safety, employment, training and financial objectives. For the author, a sustainable enterprise invests in "people capital" and in research and development for the long term.

In the "Green Paper," the point on people resources is set out as follows:

« *28. A major challenge for enterprises today is to attract and retain skilled workers. In this context, the relevant measures could include life-long learning, empowerment of employees, better information throughout the company, better balance between work, family and leisure, greater work force diversity, equal pay and career prospects for women, profit sharing and share ownership schemes, and concern for employability as well as job security. Active follow up and management of employees who are off work due to disabilities or injuries have also been shown to result in cost saving.*

67. Sigurt Vitols (2008), *"The evolving European system of corporate governance: implications for worker participation,"* Transfert 1/08 14 (1) pp. 27-43. S. Vitols: Senior Research Fellow at the Wissenschaftszentrum Berlin für Sozialforschung (WZB)

29. Responsible recruitment practices, involving in particular non-discriminatory practices, could facilitate the recruitment of people from ethnic minorities, older workers, women and the long-term unemployed and people at disadvantage. Such practices are essential in relation to achieving the European Employment Strategy objectives of reducing unemployment, raising the employment rate, and fighting against social exclusion.

30. In relation to life-long learning, businesses have a key role to play at several levels: contributing to a better definition of training needs through close partnership with local actors who design education and training programmes; supporting the transition from school to work for young people, for example by providing apprenticeship places; valuing learning, in particular in the Accreditation of Prior and Experiential Learning (APEL); and providing an environment which encourages life-long learning by all employees, particularly by the less educated, and less skilled and older workers."

The internal social positioning of the "Green Paper" concerns this passage in particular, "people resources," less favored workers, respect for diversity in its multiple aspects (some of which are covered by Directive 2000/78/EC), support for the principle of continuing education and training, and employee shareholding (as practiced in France).

In a communication in 2006[68], the Commission stresses the efforts to be intensified, in particular regarding the role of employees in the development of the CSR:

68. COM/2006/0136 final *"Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Implementing the partnership for growth and jobs: making Europe a pole of excellence on corporate social responability,"* p. 3.

« (...) *Nevertheless, the uptake, implementation and strategic integration of CSR by European enterprises should be further improved. The role of employees, their representatives and their trade unions in the development and implementation of CSR practices should be further enhanced (...).*

Norbert Kluge and Isabelle Schömann[69], in discussing the application of the Green Paper, point to a relative failure of CSR in concentrating essentially on sustainable development and excluding, explicitly, stakeholders such as the social partners and non-governmental organizations:

« *Analysis of the Commission's communications on CSR of 2002 and 2006 (European Commission 2002, 2006), however, has shown that the ambition to draw up a European framework for CSR along the lines described in the 2001 Green Paper has now been reduced to the much more limited project of ensuring a business contribution to sustainable development, thus explicitly excluding stakeholders (social partners and NGOs). Clearly, the European Union has missed an opportunity to make a significant and fundamental contribution to CSR by establishing and maintaining a well-balanced legislative framework based on partnership by favoring only the unilateral initiatives of industry."*

The "societal dialogue" recommended by the CSR is currently quite different from the social dialogue conducted by trade union organizations, governed by national and European social and labor laws. Norbert Kluge and Isabelle Schömann subtitle their article quite significantly as: "*CSR: from unilateral PR instruments to contractual agreements on social, environmental and*

69. Norbert Kluge and Isabelle Schömann (2008), « *Corporate governance, workers' participation and CSR: the way to a good company*", Transfert 1/08 14 (1) pp. 13-26.

ethical/governance standards at multinational level," thereby indicating the need for the CSR to develop itself further in relation to dimensions other than sustainable development and to make more progress in social relations at a more global level.

The Commission encourages the completion of the code of conduct within the Framework of CSR[70] based on the ILO and OECD recommendations that include appropriate mechanisms for the assessment and proper verification of their implementation and involving the social partners as well as all stakeholders concerned.

Two initiatives have stated their wish to influence CSR more towards an international and more social model, namely:

- International Framework Agreements (IFAs)
- European Alliance for CSR

International Framework Agreements are considered as the new "corner stone" of international industrial relations and constitute an additional means of representing the interests of employees. CSR aims for participation in the development of a "European governance framework" to enable employees and trade unions to exert influence. Norbert Kluge and Isabelle Schömann[71] underscore this aspect:

" IFAs are another new means to spread social and labour standards globally, that is, beyond European borders. Such agreements could evolve to cover a broader range of issues, including workers' rights within the decision-making processes of multinational companies".

70. Commission of the European Communities (2002), « *Corporate Social Responsibility: A business contribution to sustainable Development"*, Communication from the Commission, Brussels, 2 July 2002 COM (2002) 347 final pp 13-14.
71. Norbert Kluge and Isabelle Schömann (2008), op.cit., p 17.

The European Alliance for CSR, a spontaneous policy initiative that does not rely on any legal text (COM/2006/0136 final), aims to encompass any European company, irrespective of its size, that wishes to continue or create new initiatives for CSR. This alliance is in line with the Commission's wish to expand the discussion with a maximum of stakeholders, and is intent on continuing its initiative in conjunction with the "multi-stakeholder forum." Its commission of March 2006 specified:

" *Backing for the new Alliance should be understood as a key component of a wider partnership that the Commission wishes to pursue with all stakeholders involved in CSR. In presenting this Communication, the Commission draws on several years of public debate and consultation with all stakeholders, most particularly in the context of the European Multi-stakeholder Forum on CSR, which presented its final report in 2004*".

3.5. Managerial practices

The managerial practices defined or expressed more spontaneously by chief executive officers have a decisive influence on the way a company is perceived by its different actors.

The choice of governance and in particular of people governance, have an influence on the organization of the company, its processes, its relations and internal and external communication.

Relations between management and its Board of Directors and between management and employees are central here and condition the "behavioral" and "political" culture of the company. Margaret M. Blair (1999)[72], defines "political culture" as follows:

72. Margaret M. Blair and Mark J. Roe (1999), *"Employees and Corporate Governance"*

" (...) the term political culture is taken to mean the beliefs that participants in the firm share about the firm's governance and the norms that influence their behavior at the firm. Shared believes, in particular, may include notions about physical and social causation, or what consequences will follow upon any given actions. These beliefs will affect the conduct of individuals whenever their actions are based in part on expectations about how others will act".

The impact of shared beliefs (or opinions) on the standards and the values to be expressed in the company conditions extensively the attitudes and actions of the actors. Apart from the legal and the social, or the technological and the organizational arsenal, the basic essentials seem to be the anticipation of behavior, the trust we can put in others, and the actual cooperation subsequent thereto between the actors. This is valid between the management and the Board of Directors, and between the management and the rest of the company's employees. It is on the basis of this trust in particular that the recommended values can find concrete expression.

There is obviously a wide diversity of organizational modes and managerial practices. Depending on the countries, the legislation influences the organizational choices, and depending on the cultures, there is a considerable impact on behavioral norms and standards. The aim here is not to attempt a presentation of these different dimensions but to set up the scope of the to people governance.

Managerial practices are generally dependent upon the context in which they find expression. Three levels can be observed from the perspective of people governance, namely the :

- ethical
- deontological, and
- operational.

The *ethical level* provides a framework for managerial practices. It leads to a questionnaire on practices by relying on key values one would wish to implement through such practices. Once the values have been defined, they will be cast in all the strategic and operational dimensions of the company — the strategy, the products and services offered the people resources management options (recruitment/training), the assessment and remuneration of performance, etc.

The stakes of people governance entail an effective definition and adoption of such values. The ethical leader applies these values while standing guarantee for the integration and translation thereof into behavior and attitudes. He enables, in a way, a regulation of the processes and attitudes that lead to organizational and managerial choices.

The *deontological level* will aim at compliance with the rule enacted either through codification (regulation, code of conduct), a law or a directive. Monitoring and control mechanisms must be introduced to assess the gap between what is desired or what is part of a commitment in the relations of management and its Board of Directors and/or management and the employees.

The legal impact was broached in particular during the analysis of trends in European social matters, such as the specific features of employee participation in the Board of Directors according to the national legislation in force.

The implementing managerial practices, the interpretations and other application margins in turn induce a "political culture," a corporate climate, and relational modes. From the perspective of people management, this level of practices is quite easily legible, can be anticipated and is easily communicated and shared within the company.

The *operational level* concerns more the exercise of leadership and its conditions for development in the company. It leads to the definition of a profile of key behavioral competencies, as well as a commitment to respect the generic values of the company.

The essential managerial topics under people governance can be the following in particular:

- The ethical choices, and the communication and implementation thereof;
- The processes and systems introduced to develop the social choices and the communication thereof;
- The modes of analysis and of sharing information on the organizational choices and their impact in terms of managerial administration;
- The management styles decided and the information, communication, and involvement of management and employees in these choices;
- The managerial and behavioral profile of a good chief executive officer.

3.6. The technological choices

With a view to a discussion of the different dimensions of people governance, it is essential to refer to the impact of information technologies on all areas and lines of business of the company, but also on its organization and finally its behavioral culture.

The professional and academic literature on the subject is extensive.

Whether particularly in areas of financial management, people resources, security, communication, or new technologies, the impact of information systems (IS) is extensive and decisive on all the social and organizational dimensions of the company.

In decision-making processes that guide chief executive officers in their strategic investment choices for IS, the impact of such choices must inevitably be anticipated, in particular on:

- The decision-making processes fed with information from particularly the information gathering systems introduced;
- The type of organization (structures, organizational charts) and thus the performance of the organization;
- The working methods (computerized self-service, distance work, etc.) as well as operating modes, and thus the performance of teams (virtual or otherwise) and of individuals;
- The style(s) of management, control assessment of individual performance, and information;
- The internal and external communication modes;
- The collective learning modes and the organization of information interchange.

The global stakes for the Board of Directors and its management are entail the *anticipation* of the:

- Alignment of the information systems with the company's strategy;
- Management performance desired;
- Organizational performance and people culture desired;
- Management of major operational risks.

3.7. Organizational choices

The organization depends essentially on the strategy, missions, lines of business and target market of the company.

The allusion as to the impact of the type of organization on the operation of the teams and individuals has already been underscored in different chapters, and is also a major dimension of people governance.

ETHICAL LEADERSHIP

4.1. CHALLENGE

Executives nowadays have understood that it is becoming imperative to go beyond an exclusive technical-legal approach to governance and to integrate all components and activities of the company in running a business. The new stakes in the company consist of shifting attention by a small number of people for applying the rules of governance, to attention and commitment by all.

Ethical leadership is not necessarily expressed by in-depth knowledge of codes and other texts used as aids to implement professional governance. One of the keystone is situated in the behavioral competencies of leaders to integrate every useful dimension in expressing the highest value and thus create the conditions for *ethical managerial expression*. Creating an ethical frame of reference by identifying and formalizing principles, methods and managerial culture is part of the top responsibilities of the Board of Directors and the management of the company. The decision-making bodies of the company have a complex task on this front. The Board of Directors has essentially two roles: the strategy of the company and the financial development thereof, as a legitimate priority, for the benefit of its investors. It has been given the ongoing challenge of complying with the rules of good governance, and now the task of moving the ethical culture of its company forward.

The leader is confronted with several fundamental ethical challenges. He must have multiple skills (and a team!) and be capable of implementing:

- A governance of governance practices;
- A professional stakeholder management;
- Concentrating on stakeholders means concentrating on conducting the company's business in a context of complex influences inside and outside the company.
- A people governance capable of strengthening corporate governance;

People governance is one of these complex aspects to be managed by executives within the internal and external dynamics of the company.

4.2. Complexity of the environment

The first legitimate objective of shareholders is the return on investment. The first objective of a company and its management is to ensure a return on investment while respecting the interests and objectives of stakeholders in the company's activities. The question of how to proceed to bring the stakeholders in the dynamics of achieving objectives and respecting the values of the company becomes crucial, as does the need for executives to position themselves clearly with regard to the different stakeholders in terms of economic and ethical priorities. The diagram below illustrates the different dimensions that make management's action difficult.

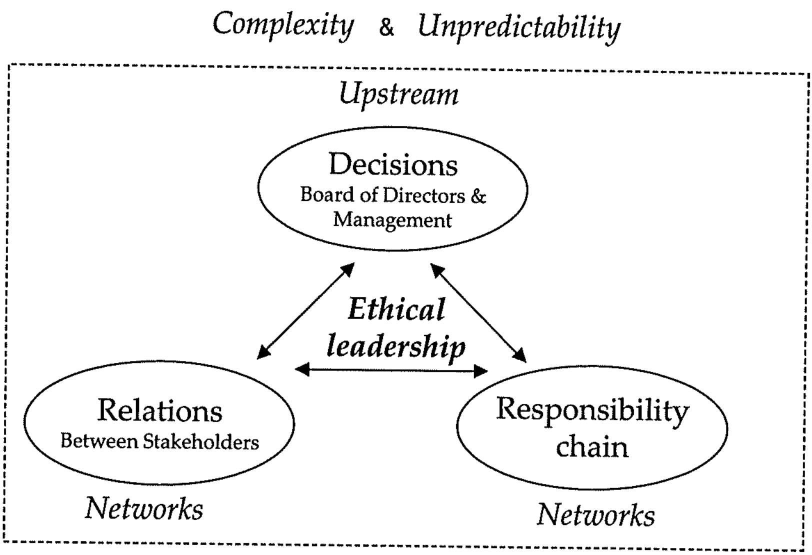

Figure 7. Challenges of the ethical leader

Upstream from the stakeholder management practices is an integration in the decision-making processes by the chief executive officer and management, of the economic, social and societal priorities. The development of these decision-making processes conditions the strategic management choices for relations with the stakeholders. It also conditions, to a certain degree, the interdependence of the company and the stakeholders in achieving the targeted economic, social and societal results.

Ethics is not a dimension that is "added" to the objectives pursued by the company, but an intrinsic consequence of the practices and behavior of all internal and external parties involved in the project of the company. The ethical question cannot, therefore, be separated from the question of achieving the company's objectives and of how to do so. Executives and management must *integrate* this ethical dimension in their fundamental processes. In acting as such, they behave as "ethical leaders."

Freeman[73] develops the concept of leadership by pointing out that it takes account of the needs of individuals belonging to the company as well as of the needs of the community, it defends shared values and finally it raises awareness and instills responsibility – the whole being expressed in the definition of the "ethical leader" put forward by Howard Gardner[74]:

> *«(...) These leaders must have, at minimum, the following objectives: (1) Releasing people potential of constituents (2) Balancing the needs of the individual and the community or organization (3) Defending the fundamental values of the community or organization » (4) Instilling in individuals a sense of initiative and responsibility ».*

This type of leader, Freeman continues, citing Gardner, helps to eliminate the depeopleizing aspects of large corporations and to establish a good social climate, but also to define a vision for the company. The latter exercise takes essentially account of the values that the leader wishes to see borne by the company.

4.3. PRINCIPLES OF ETHICAL LEADERSHIP

Ethical leadership concerns every executive taken individually, but also a group of executives acting collectively. Once the framework has been fixed, it can be translated into

73. FREEMAN, R. Edward, Harrison J.S., Wicks A. C.2007. *Managing for Stakeholders. Survival, Reputation, and Success.* Yale University Press. New Haven & London.

74. In Freeman 2007, pp 144-145. Howard Gardner, Leading Minds (New York: Basic Books 1995), p. xvi.

principles to be defended and recommendations to be turned into attitudes and behaviors. Whether individually or collectively, the capacity to do some soul searching about the moral frame of reference set for the company and its stakeholders must be permanent.

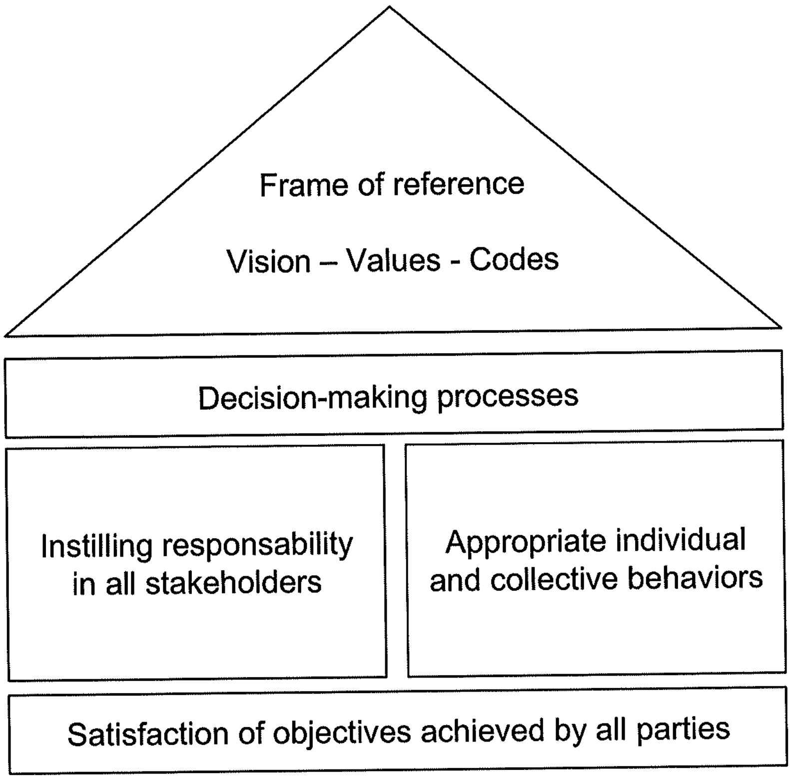

Figure 8. Pillars of ethical leadership

MANAGING A DOUBLE BIND

The establishment of ethical leadership requires the prior introduction of a as wide and as open discussion as possible with all the stakeholders with the greatest respect for the integration of the relations. Defining the notion of integrity is a vast debate, and strictly speaking, lies beyond the present scope. The debate and the notion of integrity must however be placed center-stage in ethical leadership. The current definition of Organizational Behavior is as follows:

> "*Ethical behavior is a way of acting considered morally just in accordance with the accepted values in a given context, as opposed to behavior that would be deemed reprehensible. (...).*[75]

Thomas E. Becker[76] gives the following definition of integrity from an objectivistic point of view:

> "*Loyalty, in action, to rational principles (general truths) and values.*"

Behavior in accordance with integrity requires different characteristics, in particular respect for certain shared values turned into observable attitudes and behavior. The framing of these values, the interpretation thereof, the evaluation of compliance therewith, and the limit that defines non-behavioral compliance constitute a vast problem. The discussion on defining integrity is perceptibly considerable.

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75. John R. Schermerhorn, James G. Hunt, Richard N. Osborn in "*Comportement humain et organisationnel*," 2nd edition, French adaptation by Claire de Billy, (2002) Editions du Renouveau Pédagogiques Inc.

76. Thomas E. Becker, *Hallmarks and consequences of integrity in organizations: the employees' perspective*, University of Delaware, Department of Business Administration. Paper presented at the 2000 annual Academy of Management Meetings, Toronto.

The originality of Thomas E. Becker's approach lies in having studied the question of integrity not from a definition of what it is or could be, but from the employees' perspective.[77]

When erecting the pillars of ethical leadership, it is essential for the CEO to ensure that everyone can find room for the expression and recognition of respective points of view. The space for dialogue thus created "with integrity" leads to an opening and enables stakeholders to understand each other and to identify the respective stakes better. The communication conditions facilitate the exercise of defining and fixing the framework supported by all the stakeholders. This is the "moral pediment" of the company. The matter is evidently far from simple. Through this exercise of sharing the points of view of the stakeholders, the executive officer of the company must make sure to remain consistent with the values and the fundamental ethics of his own company. So there is a double constraint, as the "political" dimension is part of the constraints to be managed.

4.4. Decision-making processes and behavior

Once the ethical framework has been defined, it would be advisable to explore the dynamics on which it relies and its chances to be really expressed within the company. The challenge for the CEO is to introduce decision-making mechanisms and processes that take into account of the respect

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77. The author describes four fundamental consequences relating to integrity which summarize all the qualitative data collected among groups of employees: - **Trust.** Trust as a result and in particular in the leader's capacity to achieve the objectives. –**Positive results for oneself.** Honesty leads to greater self-esteem. - **Positive results for others.** Better professional relations. – **Occasional negative results.** Acting with integrity may, under certain conditions, have negative consequences, such as interpersonal conflicts from the fact of applying the "right" decisions.

and specific traits of each party, while respecting their independence and the known respective "political stakes." The CEO incarnates a particular role in identifying, with all the actors, the priority decision-making processes to be considered in achieving the objectives and values of the company. He also decides on the working methods for implementing these "open" decision-making processes, which reflect the moral choices and commitments. The capacity to influence and, consequently, to be able to introduce a moral vision, requires the control and enrichment of the decision-making process. Instilling responsibility in each stakeholder in turn requires being able to find a part of their stakes in the dynamics of the company. That said, the difficulty lies also in the fact of having to convince all the parties to defend the specific interests of the company. Instilling responsibility, raising awareness about what is at stake, and introducing appropriate decision-making processes call for many competencies on the part of the CEO, a good team, a great deal of imagination, "moral fortitude" to overcome difficulties, think and persuade others about the consequences of the moral choices, as well as the accompanying attitudes and behavior. He will have to juggle many dimensions. That of people governance is the nerve center of the moral and instrumental action, bearing in mind that many things rely on people and their behavior... Such people governance gives meaning to the action and a horizon to the community at work!

DECIDING ON PEOPLE GOVERNANCE

5.1. The Board of Directors takes the initiative

The many subjects broached during the deliberations of the Brussels "*People governance Committee*"[78] included the place where people governance had to be discussed. The institutional point of entry was identified quite rapidly, i.e. the Board of Directors, where the company's strategy is charted and the decisions taken concerning all actors inside and outside the company. People governance is an integral part of – and indeed strengthens – corporate governance. The need to include management also emerged very early on in the discussions.

The decision-making process of people governance is consequently borne by two major actors: the Board of Directors and management, while it is implemented by all the actors of the company.

The way in which the Board of Directors functions in Europe differs from country to country. The basic responsibilities of a board, however, are quite similar (B. Holly, J. Gregory 2002), and the principles of corporate governance (OECD 2004) provide an identical interpretation.

The many formalized tasks of the Board of Directors or the Supervisory Board (OECD)[79] include:

78. Cf. supra
79. OCDE (2004) op.cit., pp. 64-74

« *(...) Reviewing and guiding corporate strategy, major plans of action (...) monitoring implementation and corporate performance (...) overseeing major capital expenditures, acquisitions and divestitures; (...) take due regard of, and deal fairly with, other stakeholder interests including those of employees (...) play a key role in setting the ethical tone of a company, not only by its own actions, but also in appointing and overseeing key executives... (...).*

People governance requires developing a cross-sectional understanding of the people dimensions that influence the operation and performance of the company; it also entails introducing ethics that take into account of such people dimensions in the way that the Board of Directors and management decide to guide the company and its projects.

To introduce sound people governance, the requisite distance is needed for analyzing the interests of the employees, the independence of action and reflection, and the useful information for making ethical decisions.

For the Committee, the only possible place to introduce such a dynamic is the Board of Directors[80] in cooperation with its management. How can the issue of people governance be broached in the Board of Directors, and what importance should it be granted?

In an effort to help structure the discussion, the Committee published a charter intended for boards of directors.[81]

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80. Report of the People governance Committee of 23 November 2007, observation n° 88, "Not all boards of directors have the same weight;" alluding to the fact that they can be "shareholder ratification chambers."

81. People governance Committee, Brussels, 15 February 2007. « *La people governance renforce la gouvernance d'entreprise. Charte à l'intention des dirigeants d'entreprise et de leurs Conseils d'Administration* », EPEGON Foundation.

5.2. Brussels Committee

The Brussels "*People governance Committee*[82]" is composed of some twenty personalities:[83] directors, CEOs, human resources managers, private experts and academics. It met from June 2006 to June 2007. During this period, the Committee produced the Charter, met a number of personalities from the trade union and European economic and political world, and also organized two work sessions to analyze and share points of view with each of the founders of corporate governance codes in Belgium.[84]

The future works of the Committee are geared to three directions:

- The finalization of the European People governance Charter under the auspices of the EPEGON Foundation;
- The "Applications Committee" geared to monitoring concrete initiatives on people governance;
- Support for the Paris Committee.

5.3. Restrictive governance?

As regards corporate governance, particularly for companies listed on the stock exchange, the Board of Directors executes the principle of good governance, or complains or explains to the stock exchange supervisory authorities or other

82. "People governance Committee," Paris, is to launch operations in October 2008 under the auspices of the EPEGON Foundation and with the support of the Institut de gouvernance humaine (IGH) in Paris.
83. The list of members is appended to the Charter.
84. "The Belgian Code of Corporate Governance," December 2004 and the Buysse Code, "Corporate Governance, Recommendations for companies not listed on the stock exchange."

institutions authorized to do so – which is not the case for companies which are not listed. In the latter case, the Board of Directors must take the initiative to lay down rules of good governance.

The decision to establish principles of people governance is not restrictive in itself. Conversely, and not connected to the people governance approach, some of its dimensions may be so, directly or indirectly, supported by legal imperatives such as, for instance, labor law or more broadly, social legislation.

People governance is an ethical approach; it goes beyond the mere legal perspective and wishes to stress the moral culture desired by the Board of Directors and management, while insisting on the independence of each company on this front. The Brussels "*People governance*" Committee has therefore insisted from the outset on the independence of the Board of Directors.[85]

"*It is up to each company to adopt a position on people governance as well as its definition and scope of people governance within its ranks... (...). The matter of people governance is left to the discretion of each Board of Directors.*"

Two dimensions must be retained out in this discussion:

- The *personal* position of each director in regard to *his conscience and ethical precepts,* particularly on the people question;
- The position of *governance.* Every Board of Directors has its own conception of *ethical decision-making.* Shared by the members of the board and management, this

85. People governance Committee, Brussels, 15 February 2007, p.8

conception guides the consistent choices to be made between managing the people dimensions of the board's activity and the company's missions

5.4. Spirit of the people governance charter

The Charter *"People governance strengthens corporate governance"* comprises nine recommendations for directors, and constitutes the document of reference[86] that serves as a basis for discussion nowadays in boards of directors or certain special committees set up by the company. It serves as a concrete basis for the discussion and implementation of the *"people governance note directive"* by the Board of Directors and management for the attention of the company.[87]

Three questions arise about the charter:

- What are the objectives of the charter?
- What are the conditions for a charter to lead to behavior developing people governance?
- How does it fit in the arsenal of tools available for the Board of Directors?

Objectives of the charter

The charter has a practical and useful goal. It sets the framework of people governance and suggests certain lines of conduct for directors and managers. The recommendations indicate, without calling for any compliance whatsoever, how the Board of Directors can move forward in developing its

86. It is also the document of reference for the European charter and the Paris "People governance" Committee.
87. People governance Commission, Brussels, 15 February 2007, Recommendation 4.

people governance policy and helps to raise the key questions. The recommendations are not rules[88] but suggestions. The rules on the matter may lead to a certain rigidity, hamper the director's independence and even entail a certain "loss of substance" in the performance of the exercise by the board.

The ***first recommendation*** goes over the initiative – and the independence – of the Board of Directors, while supposing the inclusion of "people governance" as an item on the agenda, depending on the pertinence thereof. The board retains the initiative even if the discussion may take place elsewhere in the company.

The Brussels Committee has wondered what would happen if the Board of Directors did not take the initiative.[89] The answer is to entrust management, the directorate or another competent body in accordance with European practices, with the conduct of people governance. In such a case, at least one director will be in charge of reporting to the board.

Three types of initiatives have been observed by companies on this first recommendation of the Charter:

- An invitation by the Chairman of the Board of Directors to meet with representatives of the "People governance" Committee in order to gauge better how to present the charter to the Board of Directors;

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88. The definition has been adapted to use the word "principles" instead of "rules."
89. People governance Committee Report of 20 September 2007, Observation n° 16 *"The Board of Directors gives hierarchical delegation to the board of management. In such a case, there is subordination. The Board of Directors, on the other hand, retains decision-making powers on the general strategy of the company. The (authorized) management committee deals with the day-to-day matters, whereas people governance is dealt with upstream. It is important to show in the company that particular attention is being paid to people management. There must be at least one person on the board who can report regularly on people governance."*

- An invitation to the People governance Committee to make a brief presentation on the charter and on people governance to the Board of Directors;
- A concrete invitation of certain boards of directors to draw up a "people governance note directive" or to authorize management to do so.[90]

Directors[91] and the board have given a good (and some boards a very good) reception to the "useful ethics" of people governance. One or more directors each time express the wish to get involved in this issue. Evidently, the most difficult task for the board in general has more to do with how to solve the methodology problem, and thus how to "launch concretely" this type of initiative.

In preparing a meeting of the Board of Directors, questions Q5 and Q8 of the "*people governance questionnaire*" can be used:

(5) Is consensus on a people governance model possible in the Board of Directors?

- Are concrete initiatives possible on this subject?
- Can an ad hoc committee to prepare this subject be envisaged?

(8) What director and management profiles should the Board of Directors have to succeed in its stakeholder policy, particularly as regards employees?

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90. Cf. supra.

91. To these initiatives was added, in 2007, the accreditation training for directors, organized by the Belgian Directors' Association (today the GUBERNA) where more than fifteen boards of directors were represented and administered by Serge Hubert. The problem of methodology seemed more of a concern for our directors than the (apparently obvious) fact of having to deal with the people question in our decision-making processes and practices.

The ***second recommendation*** is in line with the known rationale that supposes one of the factors of the performance of a Board of Directors being conditioned in particular by the diversity of the competencies of the directors present, and thus the pertinence of the provisional management of the composition of said board.

For the People governance Committee, the entire board should be informed in detail about people governance, and one or two "reference" directors should be trained from both a methodological and a conceptual point of view[92] on how to introduce the discussion on people governance and to develop the "*note directive*".

To prepare a meeting of the Board of Directors, questions Q18; Q27; Q28; Q41 of the "*people governance questionnaire*" can be used:

(18) What elements does the selection committee have to understand the type of composition and profiles targeted when composing or strengthening the Board of Directors?

(27) How can the diversity of profiles of directors on the board be determined and secured?

(28) How can the board ensure that the directors are actually following (involvement/motivation) the activity of the company and of management?

(41) What type of initiative/dossier/document can the board formalize in order to stimulate directors to prepare better the ethical dimensions of their strategic decisions and the implementation thereof?

92. Cf. EPEGON: Executive Board & People governance Master Class.

The second aspect of this recommendation consists of the Committee's intent to launch a discussion on the role of people resources. The diverse situations of HR in the organizational chart as well as the description of positions has led the Committee to leave it up to each Board of Directors to choose the positioning of HR in its people governance. Ten years ago, studies on people governance showed that it was little if at all represented in the decision-making bodies of the company. A European study conducted by Hiltrop, Despress and Sparrow (1995) confirmed this situation overall.[93] It underscored that in European countries, HR specialists rarely moved up to the highest positions of companies. In Scandinavia, it seems to be more common to find people resources managers in such a position. The highest level of expertise in people resources is recognized for countries such as Germany, Ireland, France, the Netherlands and the United Kingdom. Ten years after this study, the situation in France seems to show that this country is drawing increasingly closer to the issue of governance, and whence of the CEO:[94]

« (...) the positioning of the HR manager (...), and what is new about it, is his role alongside management, in particular during change operations (...) He is consulted upstream of the decisions, and his opinion as well as his competencies are indispensable for implementing efficiently and without too many conflicts, the change operations (...) As a co-decider, he brings added value to the decision-making process.. (...) HR managers are increasingly called on upstream of the decisions and involved in the decision-making process; they are all but systematically represented in management

93. Jean M. Hiltrop, Charles Despres, Paul Sparrow (1995), "*The Changing Role of HR Managers in Europe*", The European Management Journal, 13(1).
94. Capgemini Consulting, Ernst & Young, « *Baromètre de la fonction DGRH* », (July 2007)

committees and seen as privileged partners of general management (...).

The participation of an operating position in people governance and the fact of being appointed by the Board of Directors may be two different things; it is up to the board to assess the question.

The ***third recommendation*** concerns the information and training (already broached in the preceding point). Involvement and specific training are indispensable elements, and the Chairman of the board plays a particular role in introducing people governance. In a discussion of this recommendation in the Board of Directors, questions Q7, Q8, Q48, Q49 of the "*people governance questionnaire*" can help for the preparation.

(7) What director and management profiles should the Board of Directors have to succeed in its stakeholder policy, particularly as regards employees?

(8) How can consensus on formalizing the ethical culture desired in the company be obtained in the Board of Directors and in management?

(48) What decision-making processes can the Board of Directors and management introduce to ensure for actors in charge of CSR the specific development of the people dimensions thereof (organizational diagnosis, organization of work, people resources management, etc.)?

(49) How can the Board of Directors and management wish to see the CSR approach positioned in the change management of the company?

The ***fourth recommendation:*** the *note directive*, still called the "*Partena note*" in reference to the first note directive from a Board of Directors based on the charter, by the Partena group, is the corner stone for introducing people governance in a company. It represents, upstream, a precise commitment to people governance, chosen by the Board of Directors and the main executives of the company, and downstream, a roadmap that sets out the main themes of the remit of people governance.

The exercise is not carried out in a "vacuum." Depending on its choices, the Board of Directors has to consult a set of actors such as: the employees, the managers or even authorities such as the European Commission or the EWC.

There are various ways to position the note directive, and there is no drafting guide proper. Essentially, it contains enough clear elements that can lead the authorized person(s) to propose a plan for people governance.

The different points for the positioning of the note can be discussed or anticipated at a preparatory session of the Board of Directors.

The aim is to proceed, from the Board of Directors, to a spontaneous examination as to which themes, questions or other suggestions can emerge in the discussion on people governance. Only in a second phase can a more structured note be used to conduct the discussions. This exercise depends enormously on the dynamism that the Chairman of the board can imbue and on the preparation made, where necessary, through cooperation with others.

The ***positioning*** of the note comprises several points as described below.

People governance guidelines

Positioning

It is brief: 2-3 pages maximum

It is concentrated on the company's priorities

It is a managerial action of the board of directors and its management, and therefore a form of commitment

Although not a code of ethics (to which it can refer) it expresses "*useful moral choices*" turned into observable attitudes and behaviors

It defines people governance, gives the "meaning" adopted by the board of directors and management

It is a reference for morally acceptable leadership as seen by the board of directors

It reflects the social and sociological dynamics desired by all the constituents of the company

It sets out the themes of people governance and clarifies the decision-making processes

It expresses the will to appoint a people governance official and defines the spirit of this appointment.

Figure 9. Positioning of the note

The note directive is also a managerial tool in the service of the company. It is up to the Board of Directors to determine the way it wishes for it to be communicated to the largest number of parties.

The ***fifth recommendation*** concerns the remit. The first section of this recommendation is based on the principle that one of the conditions for a successful implementation and monitoring of people governance is to appoint a reference person. One or more people can be appointed by the board, but it is important for there to be only one person responsible with regard to the Board of Directors.

The second section touches the scope of this appointment. It is up to the Board of Directors to decide. All the formulas are possible and can draw inspiration from the segmentation of the validation stages for a people governance plan.

The question of scope is all the more interesting as we are increasingly confronted with inter-organizational situations that ask the question as to how far the responsibility of directors extends.

All the first remits by the Board of Directors of companies concerned were given to the CEO.[95]

The ***sixth recommendation*** has to do with the *coherence* between the wishes and actions.

It is highly detailed, like a catalogue of options to which the board can add or subtract priorities. The lines set out in these recommendations cover people governance issues, such as:

- the general people governance objectives of the Board of Directors (6.1.)
- the strategic choices and the implications of people governance (6.2.1.) ;
- . the managerial culture dimension and the coherence associated therewith (6.2.2.) ;

95. Cf. the testimonials in this chapter

.- the people governance aspects brought together as a plan (6.3.).

It is up to each Board of Directors to make its own choices. Irrespective of said choices, the directors must acquire the means and resources to act accordingly and to be regularly informed so that they can integrate people governance in their discussions and decisions as and when pertinent.

The ***seventh recommendation*** will be replaced in the European version of the charter. The board must be the guarantor of its people governance and provide mechanisms for evaluating its progress on the matter.

The ***eighth recommendation*** reiterates the importance of entrusting the Board of Directors with guiding the governance, where the discussions can be held without losing control of the coherence of the whole.

The ***ninth recommendation*** ensures the transparency and communication of people governance projects for the largest number of actors inside and outside the company.

The charter set out in the following chapter is the first version of the Brussels Committee. A second, European version is under preparation.

People Governance to strengthen Corporate Governance

Charter for company directors and their Boards of Directors

PEOPLE GOVERNANCE COMMISSION

Bruxelles
15 February 2007

CHARTER

Foreword

Introduction

1. *People governance*
2. *Recommendations for the Board of Directors*

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FOREWORD

The issue of people governance in the corporate setting is a vast multi-faceted subject. The Commission, by viewing the company as a "community at work" wished to underline the importance of meeting company objectives, especially economic objectives, through a process carried by the men and women participating in a dynamics that is shared and sustainable, with rights and duties.

In this perspective, men and women are no longer seen as "capital" or "resources", but as active and responsible members within a complex system whose purpose is primarily economic.

Thus, the work of the Commission was not a reflection on "people resources", even though this was an aspect of the question. Rather it was a reflection on how corporate governance can be enhanced through the influence of the innumerable components of people nature.

Reinforcing economic and people prospects, strengthening social-professional cohesion, enabling the company to be more fully aware of the realities and interactions of its people and mechanisms all add up to better decision-making and better governance.

The Commission is attentive to the fact that a company constantly takes decisions regarding the men and women on their staff rolls. Yet, so many decision-making structures have no person to whom they can refer for questions regarding people governance - people governance. The main thrust of our work was thus to enrich this decision-making process through a people governance approach that is structured, planned and integrated in the corporate decision-making process.

The Commission is convinced that a new-generation Corporate Governance Code will emerge, one that will give a larger place to "People Governance". The charter prepared by the Commission is a first step in this direction. The second step will be to integrate this charter into the existing Codes.

I am grateful to the members for the motivated and motivating energy they put into the preparation of this Charter.

I should also like to thank the partners who not only offered an exceptional framework for the Commission's work, but also invested a good deal of time to prepare our plenary sessions.

This process is unique in Europe, and Belgium can play a leading role in the evolution of corporate codes along these lines.

I personally hope that the debate on People Governance as a complementary vehicle for corporate governance is now open. And that each corporate director, in turn, can launch this matter so essential to our life in the economic community - achieving the desired level of performance as a consequence and not merely as a goal.

Serge Hubert

15 February 2007

INTRODUCTION

The People Governance Commission entrusted itself to formulate a series of recommendations and guidelines in people governance for corporate directors, their Boards of Directors and management councils. The aim is thoroughly pragmatic, and the overall vision consists in stating that a new generation of codes should give greater consideration to the people governance dimension.

The goal is not to write just one more code, but rather to provide a set of recommendations that can be incorporated into existing codes.

The question of integrating the "people" component is not a priority expressed in corporate governance codes. These codes were not written in this frame of mind, although they do contain two elements close to people considerations, namely the matters of salary committees and nomination committees.

The "Buysse Code" stresses the importance of good relations with staff in its chapter on "Basic recommendations for sound entrepreneurship": "An enterprise is built not only with financial capital, but also with people capital. A good relationship with the employees is therefore just as important for the continuity and growth of an enterprise as the relationship with its banker, suppliers or customers. Here, too, mutual trust must form the basis, since satisfied employees produce better operating results."[96]

96. Code Buysse p33

Recommendations in this area focus on being more attentive to employee satisfaction as well as encouraging staff to participate in the company policy.

The People Governance Commission adheres to the logic of reinforcing corporate governance by introducing a people governance policy that is defended and promoted by the decision-making bodies and all the company stakeholders.

Corporate governance can be defined as establishing the rules, mechanisms and behaviours that make it possible to guide, monitor and evaluate the way a company is run.

A structured people governance is not only a means to provide an additional approach to the company's governance; it is also an integral part of corporate governance.

Corporate governance is applied in the aim to develop the corporate spirit, to reinforce the quality of the management structure's decision-making and control processes, and also to evaluate performance. It plays a role in setting general objectives and also in defining the financial and people resources needed to attain these objectives.

Corporate governance is a sustainable process that not only serves the shareholders, but also benefits all the components of a company.

The way a company is run and controlled is a key element in corporate governance. Integrating the people element, and people behaviour, in this process can occur at all levels of the company's management process.

Corporate governance is concerned with the efficiency of a company as well as the endeavour to make all the stakeholders feel responsible, in particular the Board of Directors, executive *management, and the personnel on the whole. These efforts can be strengthened by implementing a structured and well-planned people governance.*

1. People governance

It is up to each company to situate itself as regards the issue of people governance; it will adopt its own definition and determine the scope of the people governance it wishes to pursue.

Nevertheless, a basic definition is called for, to serve as a working basis for all discussions on people governance.

Definition

People governance is the setting up of ethical rules and behaviours that lead to the integration of people-related issues at all stages of the decision-making processes of the company's decision bodies.

People governance is applied in a broad spectrum and is guided by the long-term perspective. It is driven by three main principles:

- *It endeavours to enrich the decision-making process, and thus the governance of the company overall.*
- *It endeavours to strengthen social-professional ties and all that has an abiding sense/a sustainable meaning for the members of a company, in particular sharing common values, and achieving the company objectives and profitability.*
- *It fosters the process of making the "community at work" feel truly responsible.*

The decision-making processes that are installed can be:

- *Economic*
- *Managerial*
- *Institutional*
- *Technological*

Ethics provides a framework for people governance practices. It does not judge, but challenges/examines behaviours on the basis of key values that the company wishes to convey. The basic postulate of people governance is the affirmation of each individual rather than that of the group.

In this sense, peoples are no longer considered exclusively as "resources" or "capital", but rather as members of an economic community at work, with its rights and duties, its challenges and its collective and individual rules.

As such, people governance must be considered as a "natural continuation" of corporate governance - and an integral part of the company's operations. It installs a method by which processes throughout the company are aligned and appropriated in a "top-down/bottom-up" manner.

Although the issue of people governance does not centre on people resources management, the latter is however an important element. Due reflection must be accorded to the corporate function responsible for people resources management to determine its content and positioning in the company. The decision to introduce the notion of people governance in the company's decision-making bodies becomes a managerial action.

Economic Process

Economic processes relate to the responsibility that each stakeholder in the community at work must assume to attain the desired profitability, and more generally to each individual's direct or indirect contribution in fulfilling the company's vision and mission.

Managerial Process

Managerial and social practices place the stakeholders in relation to one another, resulting in a set of requirements, relational modes, commitments, duties and obligations.

Technological Process

Technological processes affect the way the work is organised, and also influence changes in professional space and time. Technological processes, in some ways, can be harmonising and egalitarian, or on the contrary, can generate inequality and undermine relations.

Institutional Process

Institutional processes relate to the setting up of social and collective relations through legal instruments such as the works council, or trade union delegation...

2. Recommendations for the Board of Directors

Recommendation 1.
The Board of Directors takes the initiative

The Board of Directors must be the institutional entry point for the debate on people governance, regardless the size of the company.

- *Each Board of Directors considers the question of people governance for its own context.*
- *The Board of Directors guides the company strategy, which in particular means taking people and managerial aspects into account. It thus has the mandated authority to launch the debate on people governance and give it the importance it deems suitable.*

- *The Board of Directors regularly discusses people-related issues, especially in the context of scenarios for the evolution of the company and its markets.*
- *The Board of Directors is guardian of the initiative regardless of the company post chosen as the focal point for people governance.*

RECOMMENDATION 2.
THE BOARD MAKES ITS COMPETENCES AVAILABLE AND DETERMINES THE ROLES

- *The complementarity of the Board members' competences influences the approach taken to the debate on people governance. In this context, decisions are in the hands of the Board of Directors and it undertakes to make the competences of its members available, together with the resources they consider necessary to further the development of the people governance principle.*
- *The People Resources manager has a constant role in the issue of people governance. The Board of Directors must determine the position of this post in relation to this issue and the role this manager plays in relation to the Board. This question is different from the debate on the "mandate for people governance".*

RECOMMENDATION 3.
BEING TRAINED AND BECOMING INFORMED

- *The Board of Directors is regularly informed and kept abreast of issues related to people governance.*

- *The Chairman of the Board ensures that the directors are able to involve themselves in the strategic issues of people governance.*
- *The directors who are willing to become more closely involved in people governance, or those holding such responsibilities as decided by the Board shall develop their knowledge in this area (see Annex 1).*

RECOMMENDATION 4.
THE BOARD OF DIRECTORS ISSUES GUIDELINES

- *The Board of Directors publishes guidelines on the specific framework it intends to give to the application of people governance, the final aims, and the basic values it wishes to defend. These guidelines structure and form the mandate for people governance.*
- *These guidelines are the basis for the specifications drawn up for the agent mandated to implement people governance.*
- *These guidelines also define any role of executive management, the management committee, and possibly of the works council in this specific context.*
- *The mission must be undertaken in a budgetary and organisational structure defined for strategic People Governance.*
- *Beyond the characteristics common to all endeavours to define and apply people governance, the exercise is nevertheless specific for each company, and a clear consensus must be reached on the role it will play in the company. It is recommended to involve the operational managers in this exercise and to make them responsible.*
- *After the Board of Directors confirms the guidelines, it mandates an agent to draft a concise set of specifications.*

- *Launching a debate on People Governance is a complex process and calls for strict methodology, perfectly phased and under the control of the Board of Directors. It is a good idea to set up a "pilot group", the composition of which is defined by the Board.*
- *The Board determines the appropriate way to disseminate these guidelines.*

RECOMMENDATION 5.
THE BOARD OF DIRECTORS ISSUES A MANDATE

- *The Board of Directors issues a mandate on the People Governance policy adopted in order to be kept informed, in a precise and timely manner, about the application of its people governance policy.*
- *The mandated agent takes care to ensure the spirit and overall consistency of the people governance practices. He/she must ensure the fairness, peopleity and visibility of these practices.*
- *The Board of Directors attributes this mandate, excluding active participation in advisory committees dealing with remuneration, nominations and audits, as recommended by corporate governance codes to avoid conflicts of interest[97]. This does not prevent the Board from inviting the agent to these Committees for a specific function.*

Characteristics of the mandate

The agent responsible for people governance is a director and/or Board member, whose actions are taken within the strategic framework defined by the Board of Directors.

97. The Board entrusts tasks that may entail a risk of conflict of interests to a sufficient number of non-executive directors, so that they may formulate an independent opinion.

Components of the people governance mandate:

- *To assist and advise the Board of Directors in drafting the "guidelines" and "specifications" that will be applied to elaborate the "people governance plan".*
- *To write the annual report on people governance to be submitted to the Board of Directors.*
- *To provide support to all the stakeholders who have an impact on people governance.*
- *This implies establishing networks of stakeholders both within and outside the company.*
- *With the help of executive management, to ensure that the "framework plan for People Governance" is actually implemented in the various operational entities.*
- *To provide special guidance to the Board of Directors regarding the impact of the decisions taken.*[98]
- *To integrate any reactions, adaptations or reorientation of decisions in the framework plan.*
- *To draw up people governance scenarios for anticipated changes, and to do this for contexts as varied as the willingness to change the company strategy, possible conflicts, or even purely exploratory approaches taken by the company relating to its corporate and/or economic future.*[99]

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98. *To ensure the responsibilities conferred to them, the members of governing bodies must have access to exact and accessible information, made available in a timely manner.*
99. Once again this underlines the importance the Board be in a position to devote sufficient time and develop its knowledge on the issues and specific topics of people governance.

RECOMMENDATION 6.
THE AGENT DEFINES AND VALIDATES THE FRAMEWORK PLAN FOR PEOPLE GOVERNANCE

6.1. The agent introduces the general objectives of the people governance plan

The "people governance plan" is specific to each company. Nevertheless some general objectives are essential to drafting an efficient plan. The executive body must taken the five general objectives listed below into consideration:

- *To develop a broad spectrum approach to people management, one that integrates all the stakeholders, and is consistent with the company's strategic, people and economic objectives.*
- *To set up a method to monitor the consistency and visibility of the practices and the decisions taken in the people governance context.*
- *To provide scenarios on the evolution of indicators and parameters for people governance.*
- *To provide information on the impact of the decisions and managerial practices.*
- *To endeavour to strengthen social-professional ties and all that has an abiding sense/a sustainable meaning for the members of a company (common values, achieving objectives and profitability).*

6.2. The Board of Directors validates the spheres of its people governance.

The Board of Directors shall check and validate that the people governance plan includes the following three dimensions:

6.2.1. Description of the strategic impacts of the Business Plan.

- *Mastering the various the direct or indirect cost elements linked to people factors.*

Financial impacts linked to people factors are complex, and go far beyond the sole issue of remuneration.

- *The ability to take into account the evolution of the legal and political environment having a direct and/or indirect impact on people management.*

6.2.2. The Cultural dimension

- *Implementing a corporate vision and mission that are clear and shared.*

The "economic community at work" dimension is an explicit part of the description of the corporate vision and mission. It is becomes operational in the people governance plan.

- *The consistency between the values conveyed and the vision that is drawn up. Understanding the values across-the-board.*

Divergence in the understanding and interpretation of the vision and associated values can be frequent. There can also be a discrepancy between behaviours and the values promoted. This is a key factor to be solved when the people governance plan is developed.

- *Consistency between managerial practices, the vision and the values adopted.*

A critical approach to the management practices of the community at work is one objective to be met through the people governance plan. This is a broad subject, touching on practices such as: skills management, performance *evaluation systems, remuneration for individual and collective performance, etc...*

- *Consistency between the business plan and the organisational modes adopted.*
- *Consistency between the processes, technological solutions and the existing infrastructure.*
- *The company's ability to move from one scenario to another, in the light of business plan or market imperatives.*

6.3. Preparing the People Governance framework

The framework plan is the reference document for efficient implementation of the people governance policy. It must receive wide consensus from the Board of Directors and management, and serve as a detailed mandate for the people governance agent.

This plan must at least contain the following elements:

- *The goals and recommendations provided by the "guidelines", the governing body's formulation of the "general objectives for people governance", together with the spheres chosen for its operational policy.*
- *The framework plan is structured primarily by a set of projects and specific actions. In this realm the link between project management and people governance is fundamental. A key chapter of the reference document is the presentation of the projects and the goals to achieve. The follow-up and evaluation of these projects, in particular, is the source for information needed to evaluate regularly the people governance scenarios chosen by the company. The consolidation of data sustains the work of the decision-making bodies and must provide information on the effective installation of the people governance policy.*

- *Description of the type of report to be submitted to the decision-making bodies, including reporting frequency.*

The Board of Directors confirms the choice of indicators to be considered and the types of management chart to be compiled.

- *The broad operational objectives.*
- *Description of the projects.*
- *Method to follow-up and evaluate the plan.*
- *Method to communicate the plan.*

The aspects to be considered are vast and multi-disciplinary. The conditions for a successful installation of the people governance plan depend not only on the ability to draft the plan, but also and especially on the ability to collaborate and mobilise all the company's partners.

People governance must become a full-fledged discipline, guided by the Board of Directors and sustained by everyone involved.

RECOMMENDATION 7.
PEOPLE GOVERNANCE AUDIT COMMITTEE

The Board of Directors examines the feasibility of setting up an people governance audit committee, with the main task of monitoring effective application and the fulfilment of rules and objectives. This committee will also be responsible for providing advice and information to the Board for its decisions.

The Committee will be chaired by the people governance agent.

Recommendation 8.
People governance is situated upstream

People governance is upstream from people resources. Management ensures its implementation in the company in the framework defined by the Board of Directors.

Recommendation 9.
Annual Report

The Board of Directors, together with management, ensures that information on people governance is published in the company's annual report.

ANNEX 1: TRAINING FOR THE DIRECTORS

The Belgian Directors Association (Association Belge des Administrateurs/Associatie van Bestuurders in België) proposes training for its members to enable them to further their ability to perform their director's mandate.

The theme of people governance will be included in this Director's Accreditation training.

ANNEX 2: AGENT'S PROFILE

The People Governance agent should ideally:

- *Be an executive director.*
- *Have sufficient experience to master both the overall and specific aspects of company management, and possess sound knowledge of the company's reference professional sector.*
- *Have the knowledge needed to draft a company plan and more specifically programmes related to people management.*
- *Master the notions of "risk management", "change management" and "scenario planning"*
- *Have the sufficient personal influence capacity needed to set up the internal and external networks to achieve the "People Governance plan".*
- *(...)*

ANNEX 3: LIST OF MEMBERS

Chairman

Serge HUBERT
Corporate director
Managing Partner Progress Associates International

Members, in alphabetical order

Mr. Georges ANTHOON
Human Resources Director - AXA

Mr. Alexandre CLEVEN
Deputy Director - PARTENA

Mr Luc COOREMANS
President - HR PUBLIC

Mr. Herman CRAENINCKX
Lawyer - STIBBE

Mr. Michel DEBOECK
HR Director - FORTIS S.A.

Me Marie-Gemma DEQUAE, Dr. TEW
Group Risk & Insurance Manager - BEKAERT

Mr. Paul-Marie DESSART
Secretary General - MOBISTAR

Mr. Yvan DIERCKXSENS
Executive Vice President - USG People

Mr. Fabrice ENDERLIN
Vice President Corporate HR - UCB

Mr Freddy IEMANTS
HR director IRIS network

Mr. Olivier HEROUT
General Manager Human Resources - SUEZ

Mr. Jacques KANNAERTS
People Resources Director - ARJOWIGGINS

Mr. Pierre KLEES
President of the Belgian Directors Association (Association Belge des Administrateurs/Associatie van Bestuurders in België)
President of ECODA European Confederation of Directors' Associations

Mr. André LECLERCQ
Vice President Corporate Shared Sercies - ARCELOR MITTAL

Mr. François PICHAULT
Professor HEC-Management School University of Liège

Mr. Bruno SCHRÖDER
National Technology Officer - MICROSOFT BELGIUM

Mr. Johan VANDEN EYNDE
Lawyer, Managing Partner Vanden Eynde & Partners

Mr Dany VANDORMAEL
Managing Director - SERIS

Commission partners

Partena , Social Secretariat & HR support
Law firm - Vanden Eynde & Partners -

People governance questionnaire

The questionnaire is not a set of questions put directly to boards of directors or Supervisory Boards, but questions put "in all conscience" to each director, who decides freely how to respond in his personal actions or to share his thoughts with his colleagues on the board. It should be noted that many codes of corporate governance help to answer this questionnaire.

Stakeholder management

1. How can stakeholder management practices be formalized, be rendered operational, and known by the Board of Directors and the management committee?
2. What place should be given specifically to employees in stakeholder management?
3. How can stakeholder management practices feature (annually) as an item on the agenda of the Board of Directors and be discussed by the CEO and management?
4. What can possibly be told to employees?
5. Is consensus on a people governance model possible in the Board of Directors?

   - Are concrete initiatives possible on this subject?

   - Can an ad hoc committee to prepare this subject be envisaged?
6. Can the annual report take stock of people governance in the company, its operating mode, utility and the direction it wishes to give to it?

7. What director and management profiles should the Board of Directors have to succeed in its stakeholder policy, particularly as regards employees?

Ethical leadership

8. How can consensus on formalizing the ethical culture desired in the company be obtained in the Board of Directors and in management?

9. How can opportunities for discussing the ethical culture desired in the company be created periodically in the Board of Directors?

10. How can the Board of Directors and management focus permanent attention on the ethical culture desired and raise the awareness of all the constituents of the company?

11. How can the behavioral competencies observed in this context be assessed in a practical and ethical manner?

12. How can the non-reappointment or dismissal of a director be dealt with correctly? How can the lessons drawn crystallize for the board?

13. How can the board integrate this ethical culture dimension in the recruitment and reappointment of a director or an executive? What role could the Chairman of the board play in such a case?

PRE-SELECTION, SELECTION AND RECEPTION OF THE DIRECTOR

14. How can a forward-looking recruitment policy and succession plans be implemented in the Board of Directors

to respond appropriately to the strategic needs of the company?

15. How can the committee in charge of the pre-selection and selection of directors be set up and duly authorized for that purpose?
16. What type of file should be provided for the members of such a committee from the outset of the procedure?
17. How can the role of the Chairman of the board be defined to this end?
18. What elements does the selection committee have to understand the type of composition and profiles targeted when composing or strengthening the Board of Directors?
19. How can the profile(s) of directors to be recruited be defined?
20. How can a list of key competencies and values desired in candidates for directors be drawn up?
21. How can a guide for interviewing candidates (by the Board of Directors and the pre-selection or selection committee) be drawn up?
22. How can the non-reappointment or dismissal of an unworthy director be conducted correctly? How can the lessons drawn crystallize for the board?
23. What types of information should be notified to the shareholders on the follow-up of the selection of candidates for directors?

24. What types of ad hoc pre-selection or selection committee reports can be considered for the Board of Directors or the Supervisory Board?
25. How can a self-assessment questionnaire on training needs for the director appointed by the board be drawn up?
26. How can an initial and continuing education and training policy for new and veteran directors be structured?

Performance of the Board of Directors

27. How can the diversity of profiles of directors on the board be determined and secured?
28. How can the board ensure that the directors are actually following (involvement/motivation) the activity of the company and of management?
29. How can the work carried out by the new directors be evaluated?
30. What role can the Chairman assume in this context?
31. How should an assessment interview that the Chairman may have with a director be structured?
32. How should independent directors be involved more in the running of the board?
33. How should the quality of the cooperation between the board and management be assessed?
34. How should the quality of the cooperation between the Chairman of the board and management be assessed?

35. What type of report should follow the assessment or self-assessment of the running of the board?
36. How should an assessment or self-assessment dynamic be introduced in the board?
37. What type of training needs self-assessment questionnaire should be drawn up for the development of directors and how can the information obtained be put to good use?
38. How can the non-reappointment or dismissal of an unworthy director be conducted correctly? How can the lessons drawn crystallize for the board?

Strategic choices

39. How can the Board of Directors and management integrate the principles of ethical leadership defended by the company when defining major strategic options?
40. How can the Board of Directors and management concretely mobilize the stakeholders (collective intuitions) when defining or adapting the corporate strategy, in particular the employees?
41. What type of initiative/document can the board formalize in order to stimulate directors to prepare better the ethical dimensions of their strategic decisions and the implementation thereof?
42. How can the Board of Directors and management concretely ensure the mobilization of the stakeholders, particularly employees, when implementing strategic options?

43. How can the Board of Directors and management introduce a "moral watchdog" so as to assess the coherence between actions taken to implement the strategy and commitments taken when defining such a strategy?

Relations with institutional actors

44. How can the Board of Directors and management ensure that directors master the major stakes that impact the social dialogue of the company pursuant to the national and/or European legal provisions?

45. How can the Board of Directors and management formalize their systemic information on the major social stakes of the company (legal developments, strategic decisions, etc.) and anticipate risks that arise?

46. How do the Board of Directors and management want to see the "social dialogue culture" positioned in addition to the legal obligations?

47. How can the Board of Directors and management ensure the effective application of the "social dialogue culture" and understand the opinion of the stakeholders on this subject (social climate)?

Corporate social responsibility (CSR)

48. What decision-making processes can the Board of Directors and management introduce to ensure for actors in charge of CSR the specific development of the people dimensions thereof (organizational diagnosis, organization of work, people resources management, etc.)?

49. How can the Board of Directors and management wish to see the CSR approach positioned in the change management of the company?

Managerial practices

50. How do the Board of Directors and management wish to see the "managerial culture" of the company defined and applied?
51. How can the Board of Directors and management ensure that the practices are discussed periodically by the directors in conjunction with the company's performance assessment?

Technological choices

52. How can the Board of Directors and management decide on technological investments whilst having a sound perception of the people governance stakes?
53. How can the Board of Directors and management be correctly informed on the quality assurance of internal and external communication processes in relation with the investments in new technologies?

FIRST NOTE DIRECTIVE

"It's a real mirror exercise for a Board of Directors"

Alexandre Cleven

6.1. Partena note directive

The Belgian group Partena[100, 101] is the first to have applied the "people governance" charter with its boards of directors. The Board of Directors of the Partena Social Secretariat[102] appointed Alexandre Cleven, managing director of the secretariat and finalized its people governance note directive. The Board of Directors of Partena Mutual Benefit Insurance Companies held an initial presentation and discussion on the subject.

The interview that follows provides a practical view of this first experiment.

How do you see people governance in a company?

First of all, I place this approach upstream from people resources. The connection between people governance and relations is fundamental. My answer to this question comprises three axis.

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100. Under Chairman Dirk van de Walle
101. "*As a leader in social services, Partena manages the social obligations and social security of over 50,000 companies and over 1.6 million individuals* (source: Statement on Auditing Standards, SAS70 p.7).
102. "*Partena Social Secretariat, the Payroll Management and HR support services provides approximately 29,000 entities and 240,000 employees*" (source: Statement on Auditing Standards, SAS70 p.7).

First, it is worth knowing that we broached the matter at Partena whilst we were in the midst of reorganization under a new strategic plan. The outcome was that a more systematic approach to people resources was needed.

Then, a "guiding thread" had to be shown, without fail. A company does a lot of things -- at times somewhat in every direction, at others bit by bit. It is therefore necessary to create a stronger bond. This bond must pertain to the company's values, the rules on how it is run, the technical procedures, but also the contacts established and cultivated by and between the different actors. All this may appear self-evident: but then we neglect to recast these elements of cohesion which are indispensable nonetheless.

Finally, one plank to be accorded priority is clarity. It is not possible to be transparent and not clear. A company is a collective project, the whole of its parts, of personal projects, of individual freedoms and personal visions.

At the center of these different attitudes an act is needed that would be like a helicopter vision. The comparison may appear strange but it shows the extent to which it is a matter of gaining height and reasoning in a philosophical manner.

Today, running a company is becoming more and more complex. For instance, yesterday, a computer problem was entrusted to a technician in charge of solving it; today, an integrated solution is needed. We have entered the "multidisciplinary" age, and in this context, people resources are at times the poor relations, whereas they actually constitute an additional filter and guarantee.

You have been appointed for this task; how did it go?

I was actually appointed by the Board of Directors. We proceeded in quite an original manner in compliance with the charter which stresses the note directive drawn up by the board.

We convened a special meeting of the board, and I asked three broad, but precise questions. We went fishing for elements to retain, reformulated them, and then ripend them during a meeting. All this, of course, in compliance with the company's values. It was both an independent and creative work, and in any event, a very, very enriching approach: no conflicts, but real cohesion and a sharing of values with, on the one hand, real involvement on the part of people, and also surprises - as people who had known each other - at times for years - made an effort to transcend their experience in the company, to go beyond the weight of words. It is hard to realize how people from such different backgrounds with widely different people and personal experiences can combine forces to find points of convergence and capitalize on the awareness of nuances contributed by each and everyone. It is a real "mirror" exercise for a Board of Directors.

How does the Partena group intend to develop this governance?

Two major directions are emerging from what I have described.

I come back to that "common thread" I mentioned earlier. Here, a concern for coherence takes priority. It must be felt as a systematic reflex. In concrete terms, I will take three examples.

We have drawn up a three-year corporate plan, dealing with the strategc positions, the training, the clarity of roles, structures, and guidance in highly varied areas.

Secondly, as we were coming out of company elections held last May, we met the members of the works council, exchanged information and continued the social dialogue.

Finally, an exercise for an executives' charter has just been launched: What is an executive? What is his role, his rights and obligations to his colleagues, etc. This is a complete reflection on this charter which must lead to a definition of training needs, recruitment methods, the well-being of employees, etc.

Are there specific characteristics for Partena?

Of course. Partena is composed of independent companies that bear the same name, maintain synergies and show the same values. It has 700 employees throughout the country. The implementation of this people governance is today a reality as regards the social secretariat. The other departments (family allowances, enterprise counter, social insurance for the self-employed and free mutual benefit insurance) share the principle and the reflection is gradually making its way thereto.

In organizing the corporate governance, the Board of Directors takes into account the experience of Partena, beyond the figures and stakes. The charter has provided undeniable added value: that of feeling the "pulse" of the company, proximity with the employees, the people reality behind the figures, an in-depth notion of responsibility.

Here is the note directive defined by the Board of Directors of Partena.

PARTENA

NOTE DIRECTIVE - PEOPLE GOVERNANCE

Principles.

The Partena Social Secretariat is a corporate project.

The project translates the determination of Partena to get integrated in the continuity of time and to assume the developments needed to secure the perpetuation of the company.

In a project, people governance concerns everything to do with people: the directors, the superiors, employees, customers, suppliers, the media, the authorities, all those, in fact, who are generally referred to as the stakeholders.

People governance is based on: the statement of values, an unequivocal statement of its operating rules, procedures and processes, on the company's loyalty to comply with its statements.

We believe that our company is always geared to the future; the project determines its direction; people governance specifies the modus vivendi chosen by the company; and com-munication provides the information energy needed for every aspect to run properly.

The modus vivendi chosen under people governance specifies the values.

Consequently, it is worth taking such measures as they are indispensable to ensure that such values are known and that the meaning thereof is well understood. The correction and loyalty in their application constitute a strong bond that unites all employees as well as directors, and enables the company to move with the times, to adapt to change, overcome difficulties, and face the many challenges that every company goes through in the course of its history.

In practice

Values

The first step is to make the values known and understood by all, and especially what they entail in the daily work, in relations with others at all levels.

For values actually lay down the rules of the game to be followed faithfully, the application of which will mark all other aspects of people relations in and of Partena.

Trust and coherence

The individual does not dread change, but the unknown which he does not control. When working in a company, at any level, a person accepts to put part of his fate in the hands of others. It is the very essence of trust.

All the measures, procedures and processes of the project become more efficient when the actors of the undertaking show trust because they know and understand. People governance helps precisely to reduce the unknown areas and to offer a horizon more accessible to each and everyone.

To that end, an essential rule must be applied: coherence between words and deeds.

If circumstances force changes, a pertinent communication to all involved can preserve the trust. It is also a question of respecting others.

Trust is the cement of people governance.

Directors

The directors are chosen for their competence and their capacity to proceed in accordance with the company's values. The values are not simply moral, social and societal statements: they constitute the top of an operational pyramid, i.e. of actions, attitudes and behavior. The example must therefore necessarily come from top...to bottom.

Hierarchical structure

The hierarchical structure is unique: it marks out and frames the company. Everything about it must be clear: title, responsibilities, powers, etc.

Everyone knows his mission in the project, so the managers manage. They provide information, give orders, are listened to, develop, correct, instruct, reward, sanction, share knowledge, assume, etc.

For all in the Partena Social Secretariat

In Partena, everyone knows that the company project exists.

Working in Partena means: contributing, to the best of one's ability, to the efficient implementation of this project. This is a foundation of consensus which means that every person working in Partena "is for" Partena.

This does not prohibit constructive criticism to make the project advance, nor dialogue to find the optimal means to improve the working and living conditions...

And for all those who put their trust in Partena.

There are not two social secretariats: the external and the internal. These two realities are actually one.

Our values, attitudes, behavior, objectives, loyalty -all concern our external contacts, whoever they may be.

People governance, people recognition

The company is a place and a time for carrying out a project. A place of hierarchical structure, order, responsibilities, fulfillment and revenues.

People governance entails recognizing the dignity of individuals for what they are: people beings, all different, and as such similar, irrespective of their fortune, their social or cultural level, their responsibilities, their powers.

All are entitled to respect and if they put their trust in the company for which they work, that company must meet this fundamental need: recognition as a people being participating in the company's project.

People governance has no other ambition.

6.2. Positioning of the Partena note directive

The Board of Directors starts the text with an "introductory paragraph" comprising three points called "principles." These are circled in the text below.

- A link to the company project, a 28-page structured document setting out the priorities of the Partena Social Secretariat. The introduction of the managing director therein starts with "Everyone does his bit."

People Governance Guidelines

Link with priorities, Strategies and employees

Principles.

1.

The Partena Social Secretariat is a corporate project.

The project translates the determination of Partena to get integrated in the continuity of time and to assume the developments needed to secure the perpetuation of the company.

Definition

2.

In a project, people governance concerns everything to do with people: the directors, the superiors, employees, customers, suppliers, the media, the authorities, all those, in fact, who are generally referred to as the stakeholders.
People governance is based on: the statement of values, an unequivocal statement of its operating rules, procedures and processes, on the company's loyalty to comply with its statements.

We believe that our company is always geared to the future; the project determines its direction; people governance specifies the modus vivendi chosen by the company; and communication provides the information energy needed for every aspect to run properly.
The modus vivendi chosen under people governance specifies the values.

Commitment of the board

3.

Consequently, it is worth taking such measures as are indispensable to ensure that said values are known and that the meaning thereof is well understood. The correction and loyalty in their application constitute a strong bond that unites all employees as well as directors, and enables the company to move with the times, to adapt to change, overcome difficulties, and face the many challenges that every company goes through in the course of its history.

- Its definition of people governance including directors and the dynamics round said governance.
- The commitment of the directors to go beyond "making known" and get people to "understand," to monitor behavior in action and underscore the link between the directors and the rest of the company.

The fourth point concentrates more on "useful ethics" as seen by the Board of Directors, covering the individual and collective relational aspects underpinned by trust and the coherence between words and deeds.

In practice

Usefull ethics

Values

The first step is to make the values known and understood by all, and especially what they entail in the daily work, in relations with others at all levels.
For values actually lay down the rules of the game to be followed faithfully, the application of which will mark all other aspects of human relations in and of Partena.

Trust and coherence
The individual does not dread change, but the unknown which he does not control. When working in a company, at any level, a person accepts to put part of his fate in the hands of others. It is the very essence of trust.
All the measures, procedures and processes of the project become more efficient when the actors of the undertaking show trust because they know and understand. People governance helps precisely to reduce the unknown areas and to offer a horizon more accessible to each and everyone.
To that end, an essential rule must be applied: coherence between words and deeds.
If circumstances force changes, a pertinent communication to all involved can preserve the trust. It is also a question of respecting others.
Trust is the cement of people governance.

The fifth point broached by the board concerns ethical leadership and the desired behavioral practices.

Ethical leadership

Directors

The directors are chosen for their competence and their capacity to proceed in accordance with the company's values. The values are not simply moral, social and societal statements: they constitute the top of an operational pyramid, i.e. of actions, attitudes and behavior. The example must therefore necessarily come from top...to bottom.

Hierarchical structure

The hierarchical structure is unique: it marks out and frames the company. Everything about it must be clear: title, responsibilities, powers, etc.
Everyone knows his mission in the project, so the managers manage. They provide information, give orders, are listened to, develop, correct, instruct, reward, sanction, share knowledge, assume, etc.

The last point chosen by the Board of Directors is that of the social and sociological dynamics inside and outside the company.

It is worth noting that, even though the remit of governance is clearly given, it is not mentioned explicitly in the note directive.

Compared with the positioning note in the sub-chapter entitled "spirit of the people governance charter," the Partena note is clearly quite complete and constitutes an initial successful exercise for its Board of Directors.

Social & Sociological choices

For all in the Partena Social Secretariat

In Partena, everyone knows that the company project exists. Working in Partena means: contributing, to the best of one's ability, to the efficient implementation of this project. This is a foundation of consensus which in turn means that every person working in Partena "is for" Partena.

This does not prohibit constructive criticism to make the project advance, nor dialogue to find the optimal means to improve the working and living conditions...

And for all those who put their trust in Partena.

There are not two social secretariats: the external and the internal. These two realities are actually one.

Our values, attitudes, behavior, objectives, loyalty –all concern our external contacts, whoever they may be.

People governance, people recognition

The company is a place and a time for carrying out a project. A place of hierarchical structure, order, responsibilities, fulfillment and revenues.

People governance entails recognizing the dignity of individuals for what they are: human beings, all different, and as such similar, irrespective of their fortune, their social or cultural level, their responsibilities, their powers.

All are entitled to respect and if they put their trust in the company for which they work, that company must meet this fundamental need: recognition as a human being participating in the company's project.

People governance has no other ambition.

IMPROVING THE CORPORATE GOVERNANCE CODES

The corporate governance codes in Europe do not explicitly broach the issue of people governance. As has been pointed out, this dimension is nonetheless present, both in our decision-making processes and in our governance methods.

The EPEGON Foundation has proposed [103] to supplement the corporate governance code with the principle of people governance and methodological indications on how to make progress on this front in a company.

The proposal that follows and the people governance charter constitute the basic elements for a dialogue with the different actors directly involved in amending governance codes in Europe. The five points below could feature in the codes:

PRINCIPLE

Each company adopts freely its position on people governance and gives it the scope it deems necessary for its development. In this context, each executive calls on his own personal ethics and decides on the type of behavior that promotes people governance. [104]

103. Cf. www.epegon.eu

104. The Board of Directors may, in this respect, consult the charter: « *La gouvernance humaine renforce la gouvernance d'entreprise - charte à l'intention des dirigeants d'entreprise et de leurs Conseils d'Administration* » *(February 2007).*

Definition

People governance is the implementation of ethical principles and attitudes that lead to the integration of people-related questions in all stages of the decision-making process by the governing bodies of the company. It makes it possible to act coherently and to strengthen all the people dimensions connected to the internal and external activities of the company.

Scope

The application of people governance has a wide spectrum and is geared to the long term. It comprises four major directions: [105]

- It is a reflection on the practices and dimensions of people governance.
- It is geared to enriching the decision-making process, and thus the corporate governance
- It is geared to strengthening the socio-professional bond and everything that has a sustainable meaning for the members of the company, in particular the sharing of common values, the attainment of objectives and the profitability of the company.
- It promotes a sense of responsibility for all the actors of the company.

105. New version of the European charter under preparation.

Decisions of the Board of Directors

The Board of Directors takes the initiative of people governance

§ The Board of Directors gives a remit relating to the people governance policy so as to be informed precisely and in good time, about the application of its people governance policy.

§ The Board of Directors publishes a note directive on the specific framework it intends to provide for the application of people governance, and the fundamental values and goals it wishes to see defended.

§ The people governance officer presents a people governance plan to be validated by the Board of Directors.

§ The Board of Directors must be informed and made aware, on a regular basis, of developments concerning people governance and its implementation in the company.

Communication

The Board of Directors ensures, in cooperation with management, that the company's annual report includes a section on people governance.

CONCLUSIONS

Deciding on people governance, means making a commitment - taking sides on the people question at the right moment. The core of the subject is the implementation of proactive ethics relating to people aspects in our modes of governance and our decision-making processes.

Deciding on people governance, means also creating the conditions so as to enable each director to contribute to a people governance approach, bearing in mind that it is up to the Board of Directors to make its free choices on the matter.

Deciding on people governance, means reconciling the personal mark of one's convictions on the people question in the company, and the responsibility for the choices made by a collective body such as the Board of Directors to achieve its mission.

The question was asked in connection with the spirit of the people governance charter: *What are the conditions for a charter to lead to behavior conducive to people governance?*

An answer can begin as follows: make a commitment, create the conditions, reconcile the personal and collective approach and act accordingly. Behavior remains the least common denominator that makes the initiative of people governance possible. Obtaining or modifying behavior entails, in the very least, being correctly informed and sufficiently motivated. A change situation also comes into play as an accelerator.

The Board of Directors and management can take the initiative and get involved in the exercise of the note directive. The latter indicates the direction that people governance is to take