CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

# INSTITUTING CORPORATE GOVERNANCE IN DEVELOPING, EMERGING AND TRANSITIONAL ECONOMIES

## A HANDBOOK

by the
Center for International Private Enterprise
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The Center for International Private Enterprise (CIPE) is an affiliate of the U.S. Chamber of Commerce, established in 1983 to promote private enterprise and market-oriented reform worldwide. As a principal participant in the National Endowment for Democracy, CIPE supports strategies and techniques that address market-based democratic development. CIPE also receives support from the U.S. Agency for International Development (USAID), as well as private corporations and foundations. Since its inception, CIPE has funded more than 700 projects in 80 countries and has conducted business association management training programs in Africa, Asia, Central and Eastern Europe, Eurasia, Latin America, and the Middle East. More information is available on the CIPE Web site: http://www.cipe.org

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# PREFACE

For more than a decade, the Center for International Private Enterprise (CIPE) has pioneered corporate governance projects worldwide as part of its mission to combat corruption and strengthen democratic, market-based economies. Early initiatives focused on Central and Eastern Europe and Asia. Yet across the globe, members of the private and public sectors and civil society have begun to realize that the future of their economy and thus their livelihood hinges on adopting sound corporate governance measures. Today, CIPE-sponsored corporate governance projects are in full swing in all regions of the world.

Corporate governance is a means whereby society can be sure that large corporations are well-run institutions to which investors and lenders can confidently commit their funds. It is now increasingly clear that having a transparent and fair system to govern markets, fair treatment of all stakeholders, and a chance for every entrepreneur with a good product to be successful, are as important to democracy as political institutions and are crucial to sound market economies. Corporate governance creates safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in a democratic society.

Recent events have demonstrated that democratic, market-based systems are well-equipped to take advantage of globalization. Simply put, instituting corporate governance is not only a means to survive in today's world, it is a strategy to prosper!

This handbook provides readers with a variety of useful tools to develop and implement effective corporate governance systems tailored to their local realities.

## INSTITUTING CORPORATE GOVERNANCE IN DEVELOPING, EMERGING AND TRANSITIONAL ECONOMIES

### *Why is corporate governance important?*

Few topics are more central to the international business and development agendas than corporate governance. A series of events over the last two decades have placed corporate governance issues as a top concern for both the international business community and the international financial institutions. Spectacular business failures such as the infamous Bank of Credit and Commerce International scandal, the United States' savings and loan crisis, and the gap between executive compensation and corporate performance drove the demand for change in developed countries. More recently, high profile scandals, financial crises and/or institutional failures in Russia, Asia and the United States have brought corporate governance issues to the fore in developing countries, transitional economies, and emerging markets.

These incidents illustrate that the lack of corporate governance enables insiders, whether they be company managers, company directors or public officials, to ransack companies and/or public coffers at the expense of shareholders, creditors and other stakeholders (employees, suppliers, the general public, and so forth). Yet, in today's globalized economy, companies and countries with weak corporate governance systems are likely to suffer serious consequences above and beyond financial scandals and crises. What is increasingly clear is that how corporations are governed—commonly referred to as corporate governance—largely determines the fate of individual companies and entire economies in the age of globalization.

Globalization and financial market liberalization have opened up new, international markets with the possibility of reaping stunning profits. Yet it has also exposed companies to fierce competition and to considerable capital fluctuations. National business communities and company managers are learning that in order to expand and be internationally competitive they need levels of capital that exceed traditional funding sources.

Failure to attract adequate levels of capital threatens the very existence of individual firms and can have dire consequences for entire economies. Lack of sufficient capital, for example, erodes firms' competitiveness eliminating jobs and hard-won social and economic gains thereby exacerbating poverty. Firms unable to attract capital run the risk of becoming suppliers and vendors to the global multinationals or, worse yet, being unable to compete and thus left out of international markets entirely, while entire economies run the risk of not being able to take advantage of globalization.

Yet, recent financial crises provoked by corruption and mismanagement have made attracting sufficient levels of capital particularly challenging these days. These crises cost investors billions of dollars and sabotaged companies' financial viability. They also contributed to increased shareholder activism and competition for investment. Investors, especially institutional investors, are now making it clear that they are not willing to foot the bill for corruption and mismanagement. Before committing any funds, investors increasingly require evidence that companies are run according to sound business practices that minimize the possibilities for cor-

ruption and mismanagement. Moreover, investors and institutions in Bogotá or Boston, Beijing or Berlin, want to be able to analyze and compare potential investments by the same standards of transparency, clarity and accuracy in financial statements before investing. In fact, being a credible business that can withstand the scrutiny of international investors is more than just a matter of global marketing: it has become essential for local companies and for entire economies to grow and prosper.

The bottom line is that investors seek out companies that have sound corporate governance structures. Corporate governance is the body of "rules of the game" by which companies are managed internally and supervised by boards of directors, in order to protect the interests and financial stake of shareholders who may be located thousands of miles away and far removed from the management of the firm. Just as good government requires transparency so that the people can effectively judge whether their interests are being served, corporations must also act in a democratic and transparent manner so that their owners can make educated decisions about their investments. This is what corporate governance is all about.

*"Corporate governance specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."*

The Organization of Economic Cooperation and Development Principles of Corporate Governance — www.oecd.org

What is often overlooked is that corporate governance is just as important for public sector firms as for private sector companies. Instituting corporate governance within public sector firms has recently begun to receive increased attention. This is particularly the case when countries are attempting to curb widespread corruption within the public sector, or when they are preparing public enterprises for privatization. In either scenario, sound corporate governance measures help to ensure that the public gets a fair return on their national assets.

### *How can corporate governance help companies and national economies?*

Corporate governance helps companies and economies attract investment and strengthens the foundation for long-term economic performance and competitiveness in several ways. First, by demanding transparency in corporate transactions, in accounting and auditing procedures, in purchasing, and in all of the myriad individual business transactions corporate governance attacks the supply side of the corruption relationship. Corruption drains companies' resources and erodes competitiveness driving away investors. Second, corporate governance procedures improve the management of the firm by helping firm managers and boards to develop a sound company strategy, and by ensuring that mergers and acquisitions are undertaken for sound business reasons, and that compensation systems reflect performance. This helps companies to attract investment on favorable terms and enhances firm performance.

Third, by adopting standards for transparency in dealing with investors and creditors, a strong system of corporate governance helps to prevent systemic banking crises even in countries where most firms are not actively traded on stock markets. Taking the next step and adopting bankruptcy procedures also helps to ensure that there are methods for dealing with business failures that are fair to all stakeholders, including workers as well as owners and creditors. Without adequate bankruptcy procedures, especially enforcement systems, there is little to prevent insiders from stripping the remaining value out of an insolvent firm to their own benefit. This happened on a wide scale during many of the privatization efforts in transitional and emerging markets with disastrous results.

"Good corporate governance:

- reduces risk
- stimulates performance
- improves access to capital markets
- enhances the marketability of goods and services
- improves leadership
- demonstrates transparency and social accountability."

Corporate Governance, CIMA — www.cima.org.uk

Fourth, recent research has shown that countries with stronger corporate governance protections for minority shareholders also have much larger and more liquid capital markets. Comparisons of countries that base their laws on different legal traditions show that those with weak systems tend to result in most companies being controlled by dominant investors rather than a widely dispersed ownership structure. Hence, for countries that are trying to attract small investors—whether domestic or foreign—corporate governance matters a great deal in getting the hard currency out of potential investors' mattresses and floorboards.[1] Collectively, these investors may be a significant source of large sums of long-term investment.

What's more, instituting corporate governance practices greatly enhances the public's faith in the integrity of the privatization process, and helps ensure that the country realizes the best return on its investments. This will, in turn, stimulate employment and economic growth.

### *The need for corporate governance is urgent*

Although instituting corporate governance is clearly beneficial for firms and countries, the rapid pace of globalization has made the need urgent. Doing so requires that firms and national governments make some fundamental changes. Companies must change the way they operate, while national governments must establish and maintain the appropriate institutional framework.

Without rules and structures of a binding nature, anarchy results. Under such conditions business becomes nothing but "casino capitalism" where investments are simply bets: bets that people will keep their word, bets that the firms are telling the truth, bets that employees will be paid, and bets that debts will be honored.

What corporate governance is all about in larger terms is how a structure can be set up that allows for a considerable amount of freedom within the rule of law. Some of the key changes involve adopting international standards of transparency, clarity, and accuracy in financial statements so that investors and creditors can easily compare potential investments.

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[1] Rafael La Porta, Florencio Lopez De Silanes, Andrei Shleifer, and Robert Vishny, "Legal Determinants of External Finance," The Journal Of Finance 52, July 1997, pp. 1131-50.

Efforts to improve corporate governance by establishing international standards began roughly 15 years ago and have recently gained enormous momentum. The movement was spearheaded over a decade ago by the World Trade Organization and by its member countries to develop standards that will help companies grow across borders by persuading investors and creditors that they can confidently invest in their country or region. To this end, international accounting bodies and national associations of accountants have worked to develop an international set of accounting standards.

In addition, the World Bank, the Organization of Economic Cooperation and Development, most of the regional development banks, and the various national development agencies have either launched or expanded corporate governance programs in the last several years. Similarly, business-related organizations like the Center for International Private Enterprise, an affiliate of the US Chamber of Commerce, have placed corporate governance at the top of their list of concerns. Think tanks and business associations throughout the developing world and in the transitional economies are also focusing resources on corporate governance.

Corporate governance is also receiving substantial attention in developed countries. In the United States, there is substantial unease over the “independence” of independent audits as witnessed in the recent publicity surrounding violations of rules prohibiting auditors to invest in companies that they audit. The Enron bankruptcy is a case in point. More generally, advanced industrial societies realize that in order to attract investment and compete internationally, they need to reform and strengthen corporate governance. Hence, in recent years, the Cadbury Commission in the United Kingdom, the Vienot Commission in France, the Organization of Economic Cooperation and Development (OECD), and the King Committee on Corporate Governance in South Africa have all issued new corporate governance guidelines.

***The work has only just begun***

Although these guidelines have helped companies and economies attract investment and improve performance, financial scandals and capital flight continue to buffet virtually all regions of the world. Existing guidelines should, therefore, be considered as one of several essential components of a sound corporate governance system.

To begin with, in order for corporate governance measures to have a meaningful impact in any economy, a set of core democratic, market institutions, including a legal system to enforce contracts and property rights, needs to be up and running. Yet, in most developing economies, even the most basic democratic, market institutions may be weak. Given these circumstances, instituting corporate governance in developing and emerging markets requires more than merely exporting well-established models of corporate governance that function within the developed economies. Special attention needs to be given to establishing the necessary political and economic institutions that are tailored to a country’s specific needs and that give corporate governance some teeth.

The crusade to institute rigorous corporate governance is not over once these key political and economic institutions are in place. Well-designed, well-functioning institutions can only enforce existing corporate governance guidelines and codes. If these guidelines or codes fail to address key corporate governance issues, even the best institutions will be unable to offer solutions.

*"We have focused, all of us, almost exclusively on the issue of corporate governance in public or listed companies, traded companies on stock exchanges, when we all know that 90 percent or more of business that takes place around the world is done by family-controlled or family-owned enterprises.*

-Stephen Davis, Editor, Global Proxy Watch

This is, in fact, often the case. Many codes, including the OECD principles, fail to address some corporate governance issues that, if left unchecked, could wreak havoc in developing and developed economies. A crucial weakness of existing guidelines is that the rules do not apply to all corporations equally. The guidelines, for example, do not apply to unlisted corporations many of which are family-owned. Yet family-owned companies dominate many developing country economies and figure prominently in certain developed economies as well. Moreover, the role of debt and exit mechanisms is insufficiently addressed in many current corporate governance codes. Clear and enforceable standards are needed to prevent connected, unsound lending widely practiced in some developed and developing economies, and responsible for recent financial crises in Eastern Europe and Asia. In short, in order to be effective, existing guidelines need to be supplemented to address these types of corporate governance issues as well.

For this reason, CIPE established a Working Group on Corporate Governance consisting of corporate governance experts to assess the institutional framework in developing, emerging and transitional economies as well as the OECD guidelines in order to identify mechanisms necessary for corporate governance to be effectively implemented across the globe.

This primer is the result of the Working Group's discussions and CIPE's decade-long experience in promoting corporate governance worldwide. It begins with a general overview of corporate governance issues and a summary of the OECD guidelines. This is followed by a comprehensive discussion of the basic democratic, market-based institutions that need to be in place in order for corporate governance codes to be effective in emerging, developing and transitional economies. Several of the salient corporate governance issues that are not addressed in the traditional approach to corporate governance, but which are relevant to every firm and economy are highlighted throughout. Next, some of the key challenges of instituting corporate governance in developing, emerging, and transitional economies are pointed out. This is followed by a series of case studies that provides a set of useful strategies to institute corporate governance in different contexts. A guide to useful resources concludes the discussion and shows readers where they can find additional corporate governance information and tools.

## Where does the need for corporate governance come from?

The original need for corporate governance stems from the separation of ownership and control in publicly held companies. Investors seek to invest their capital in profit-making firms so that they can enjoy these profits in the future. Yet many investors lack the time and expertise necessary to operate a firm and ensure that it provides an investment return. As result, investors hire individuals with management expertise to run the company on a daily basis to see to it that the firm's activities enhance the company's profitability and long-term performance.

A key drawback of this arrangement is that managers and/or directors are often not owners, and thus they will not bear the brunt in terms of lost investment and lost profits if the company fails to perform.[2] As a result, managers and/or directors may take actions that hurt the value of shareholders' investment. They, for example, may not be as vigilant as they should in overseeing the internal operations of the company, they may take excessive risks when their position is endangered or take insufficient risk when their position is secure. They may bend over backward to resist a takeover that would be in the company's best, long-term interest or entrench themselves by investing in declining industries that they are good in running, but that are not profitable. Managers may also be tempted to steal from the company by raiding the pension fund, to pay inflated transfer prices to affiliated entities, or to engage in insider trading.[3] Such behavior obviously harms the performance and financial viability of the firm and illustrates the need for corporate governance.

Yet, the need for corporate governance in developing, emerging and transitional economies extends far beyond resolving problems stemming from the separation of ownership and control. Developing and emerging economies are constantly confronted with issues such as the lack of property rights, the abuse of minority shareholders, contract violations, asset stripping and self-dealing.

To make matters worse, these acts often go unpunished. This is because many developing, emerging and transitional economies lack the necessary political and economic institutions in order for democracy and markets to function. Without these institutions, corporate governance measures will have little impact. Hence, in the context of developing, emerging and transitional economies, instituting corporate governance entails establishing democratic, market-based institutions as well as sound guidelines for how companies are run internally.

### *Corporate ownership structures matter*

All corporate governance systems revolve around four core principles:
Fairness, accountability, responsibility and transparency. The specific challenges of upholding these principles depend on the ownership structure of the corporate sector.

There are two general types of corporate ownership structures: concentrated and dispersed. In concentrated ownership structures, ownership and/or control is concentrated in the

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[2] This separation of ownership and control is often referred to as the "principal-agent problem." The principals are the investors who supply the capital, while the managers are the agents of the investors who run the company.

[3] These examples are drawn from Jean Tirole, "Corporate Governance," Econometrica, Vol. 69, No.1, January 2001, p. 2.

hands of a small number of individuals, families, managers, directors, holding companies, banks and/or other non-financial corporations. Because these individuals or groups often manage, control or strongly influence the way that a company is run, they are called insiders. Hence, concentrated ownership structures are referred to as insider systems. Most countries, especially those governed by civil law, have concentrated ownership structures.

Insiders exercise control over companies in several ways. A common scenario is where insiders own the majority of the company shares and voting rights. (Oftentimes, large share or vote holders control management through direct representation on the company board.) Other times, insiders own some shares, but enjoy the majority of the voting rights. This happens when there are multiple classes of shares and some shares enjoy more voting rights than others. (In some cases, certain shares have no voting rights at all.) It also occurs if there are proxy votes and voting trusts. If a few owners own shares with significant voting rights, they can effectively control a company even though they did not provide the majority of the capital.[4]

Dispersed ownership is the other type ownership structure. In this scenario, a large number of owners each hold a small number of company shares. Small shareholders have little incentive to closely monitor a company's activities and tend not to be involved in management decisions or policies. Hence, they are called outsiders, and dispersed ownership structures are referred to as outsider systems. Common law countries such as the UK and the US tend to have dispersed ownership structures.

*"Both civil law and common law can accommodate concepts and practices of good corporate governance, and I think it would be wrong to bring the Delaware Code over to an Eastern European country. You don't necessarily get at good practices by doing that. If the system is one of civil law, and that's what people are comfortable with, then, it should be able to be adapted if the institutions and the people want to incorporate good practices. After all, there's nothing in the civil code that says you should have 30-day notice for meetings instead of maybe five days."*

Charles Schwartz, Corporate Governance Expert, USAID

***Each system has corporate governance challenges***

Each system, the insider and the outsider, has advantages and disadvantages and thereby its own corporate governance challenges. These are briefly described below beginning with the insider system.

***Insider systems***

Companies that are controlled by insiders enjoy certain advantages. Insiders have the power and the incentive to monitor management closely thereby minimizing the potential for mismanagement and fraud. Moreover, because of their significant ownership and control rights, insiders tend to keep their investment in a firm for long periods of time. As a result, insiders tend to support decisions that will enhance a firm's long-term performance as opposed to decisions designed to maximize short-term gains.

However, insider systems predispose a company to certain corporate governance failures. One is that dominant owners and/or vote holders can bully or collude with management to expropriate firm assets at the expense of minority shareholders. This is a significant risk when

4 Pyramid ownership structures, for example, enable insiders at the top to extend their control over corporations and vast corporate assets with very little direct equity ownership in corporations lower down the pyramid.

minority shareholders do not enjoy legal rights. Similarly, when managers are large share and/or vote holders they may use their power to influence board decisions that may directly benefit them at the company's expense. Common examples include managers that persuade boards to authorize exorbitant managerial salaries and benefits or to approve the purchase of over-priced inputs from a firm in which the manager owns large shares.[5]

Large share or vote holders have other means of damaging companies up their sleeves. One is to encourage the board to approve the purchase of a rival firm for the sole purpose of extending the company's market share and muting competition. Another is to convince the board to reject takeover offers for fear of losing control over the firm even though a takeover might improve the company's performance. This danger is exacerbated when family-owned or insider-controlled companies are shielded from market pressures because they are not listed on the stock market.

When banks are large share and/or vote holders in a company to which they lend, the banks may face conflicts of interest that could jeopardize the future of the bank and the company. In this scenario, banks have an obvious interest in the company's continuity, and thus, they may continue to extend credits even though the company is not creditworthy. This can also happen if insiders use their connections to public officials to obtain publicly funded bailouts or to elude bankruptcy proceedings.

In short, insiders who wield their power irresponsibly waste resources and drain company productivity levels; they also foster investor reluctance and illiquid capital markets. Shallow capital markets, in turn, deprive companies of capital and prevent investors from diversifying their risks.

*The importance of corporate governance is "amplified (negatively) by the pervasiveness of concentrated oligopolistic local power structures that are highly conducive to self-dealing by corporate insiders, in the private and public sector alike, and to other negative-sum-game rent-seeking behaviour in those countries. Such behaviour tends to result in huge wastages of corporate-controlled resources and a highly inefficient economy-wide use of capital, as well as to perpetuate or exacerbate local inequalities, and thus to constitute a serious hindrance to long-term development in low and medium-income developing economies alike."*

**Charles P. Oman, Head of Project, OECD Development Centre.** Quoted from Oman s 2001 paper entitled, "Corporate Governance and National Development." This study was an outgrowth of the OECD Development Centre s Experts Workshop in 2000 and Informal Policy Dialogue in 2001 sponsored in part by CIPE.

[5] The latter is known as self-dealing. See Charles P. Oman, "Corporate Governance and National Development," OECD Development Centre, Technical Papers, No. 180, September 2001, p. 34. Available online at: http://www.oecd.org/dev/publication/tp1a.htm.

***Outsider systems***

In contrast to insider systems, owners in outsider systems rely on independent board members to monitor managerial behavior and keep it in check. Independent board members tend to disclose information openly and equitably, assess managerial performance objectively, and to protect shareholders' rights vigorously. As a result, outsider systems are considered more accountable and less corrupt and tend to foster liquid capital markets.

Despite these advantages, dispersed ownership structures have certain weaknesses. Dispersed owners tend to be interested in short-term profit maximization. Hence, they tend to approve policies and strategies that will yield short-term gains, but that may not necessarily promote long-term company performance. At times, this can lead to conflicts between directors and owners, and to frequent ownership changes because shareholders may divest in the hopes of reaping higher profits elsewhere both of which weaken company stability.

Small-scale investors have less financial incentive to vigilantly monitor boardroom decisions and to hold directors accountable. As a result, directors who support unsound decisions may remain on the board when it is in the company's interest that they be removed.

***What can be done?***

It is evident that both insider and outsider systems have inherent risks. Failure to institute the appropriate mechanisms to reduce these risks jeopardizes the well-being of entire economies. Corporate governance systems are designed to minimize these risks and to promote political and economic development. An effective corporate governance system relies on a combination of internal and external controls. Internal controls are arrangements within a corporation that aim to minimize risk by defining the relationships between managers, shareholders, boards of directors, and stakeholders. In order for these measures to have a meaningful effect, they must be buttressed by a variety of extra-firm institutions tailored to a country's environment (referred to as external controls).

The previous point cannot be emphasized enough. Many efforts to prevent financial crises or improve firm performance by instituting corporate governance systems are doomed from the outset because they adopt internal controls without external controls and/or they failed to adapt these controls to local realities. More often than not, many policymakers and practitioners from well-established market-economies take the existence and well functioning of these external controls or institutions for granted and thus, overlook their importance.

This is evidenced by a quote from a recent academic survey:

> "Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers?"[6]

From this point of view, corporate governance tends to focus on a simple model:

1. Shareholders elect directors who represent them.
2. Directors vote on key matters and adopt the majority decision.
3. Decisions are made in a transparent manner so that shareholders and others can hold directors accountable.
4. The company adopts accounting standards to generate the information necessary for directors, investors and other stakeholders to make decisions.
5. The company's policies and practices adhere to applicable national, state and local laws.[7]

Focusing on these types of internal control processes is quite natural when the subject is corporate governance within the advanced market economies. Point number five assumes that a functioning legal system is in place. Although there are considerable differences between the Anglo-American, German, Japanese, and other systems, they all share the luxury of defining the subject of corporate governance within the context of functioning market systems and highly developed legal institutions.

Yet, many developing and emerging economies lack or are in the process of developing the most basic market institutions. Hence, corporate governance in these contexts involves a much wider range of issues. The Asian economic crisis, the continuing turmoil in Russia, and the recent experience of the Czech economy have combined to push the issue of corporate governance from the sidelines to center stage. In Asia, what began as a financial crisis is now viewed to be a crisis of corporate transparency involving relationships between government and business, between holders of debt and equity, and the legal remedies for bankruptcy and cronyism. Further, as seen in the daily papers, the lack of adequate institutions in Russia have resulted in several highly publicized cases involving allegations of asset stripping, stock register manipulation, and fraud[8]. The Czech Republic privatization program has demonstrated the weakness of the voucher method in the absence of sound corporate governance mechanisms since it resulted in a lack of corporate restructuring and a consequent decline in competitiveness.

What these examples have in common is that they all involve the basic rules of the economy and the relationship between these rules and the way companies are governed. Solving corporate governance problems in developing and emerging economies such as those listed above involves going beyond a narrow view of how owners and managers of capital interrelate. In developing or transitional economies, the standard definition should be supplemented by placing it in context as follows:

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6 Andrei Shleifer and Robert Vishny, "A Survey of Corporate Governance," The Journal of Finance, Vol. LII, No.2, June 1997, p. 737.

7 This list is drawn from a course for new directors developed by the Central European University and CIPE. See CIPE s Web site for more information at: www.cipe.org.

8 See, for example, Andrew Jack, "Oil giant bogged down in Siberian intrigue: BP Amoco's stake in Sidanco has become a litmus test for foreign investment in Russia," The Financial Times, October 20, 1999.

> Corporate governance systems depend upon a set of institutions (laws, regulations, contracts, and norms) that enable self-governing firms to operate as the central element of a competitive market economy. These institutions ensure that the internal corporate government procedures adopted by the firms are enforced and that management is responsible to owners (shareholders) and other stakeholders.

The key point in this definition is that the public and private sectors have to work together to develop a set of rules that are binding on all and which establish the ways in which companies have to govern themselves.

***Where to start?***

A useful first step in creating or reforming the corporate governance system is to look at the principles laid out by the OECD and adopted by the governments which are members of the OECD itself. These principles can be found on the OECD Web site: www.oecd.gov. In summary, they include the following elements.

The Rights of Shareholders

> These include a set of rights including secure ownership of their shares, the right to full disclosure of information, voting rights, participation in decisions on sale or modification of corporate assets including mergers and new share issues. The guidelines go on to specify a host of other issues connected to the basic concern of protecting the value of the corporation.

The Equitable Treatment of Shareholders

> Here the OECD is concerned with protecting minority shareholders' rights by setting up systems that keep insiders, including managers and directors, from taking advantage of their roles. Insider trading, for example, is explicitly prohibited and directors should disclose any material interests regarding transactions.

The Role of Stakeholders in Corporate Governance

> The OECD recognizes that there are other stakeholders in companies in addition to shareholders. Banks, bond holders and workers for example are important stakeholders in the way in which companies perform and make decisions. The OECD guidelines lay out several general provisions for protecting stakeholder interests.

Disclosure and Transparency

> The OECD also lays out a number of provisions for the disclosure and communication of key facts about the company ranging from financial details to governance structures including the board of directors and their remuneration. The guidelines

also specify that annual audits should be performed by independent auditors in accordance with high quality standards.

The Responsibilities of the Board

The guidelines provide a great deal of detail about the functions of the board in protecting the company, its shareholders, and its stakeholders. These include concerns about corporate strategy, risk, executive compensation and performance, as well as accounting and reporting systems.

The OECD guidelines are somewhat general and both the Anglo-American system and the Continental European (or German) systems would be quite consistent with them. However, there is growing pressure to put more enforcement mechanisms into those guidelines. The challenge will be to do this in a way consistent with market-oriented procedures by creating self-enforcing procedures that do not impose large new costs on firms. The following are some ways to introduce more explicit standards:

- Countries should be required to establish independent share registries. All too often, newly privatized or partially privatized firms dilute stock or simply fail to register shares purchased through foreign direct investments.

- Standards for transparency and reporting of the sales of underlying assets need to be spelled out along with enforcement mechanisms and procedures by which investors can seek to recover damages.

- The discussion of stakeholder participation in the OECD guidelines needs to be balanced by discussion of conflict of interest and insider trading issues. Standards or guidelines are needed in both areas.

- Internationally accepted accounting standards should be explicitly required and national standards should be brought into alignment with international standards.

- Internal company audit functions and the inclusion of outside directors on audit committees needs to be made explicit. The best practice would be to require that only outside, independent directors be allowed to serve on audit committees.

***Where to continue?***

Although the OECD Principles are a useful starting point to begin building a corporate governance system, they focus mainly on internal controls and are designed primarily for listed companies that function within an effective legal and regulatory environment with adequate competition. Yet, many developing, emerging or transitional economies either do not have a stock market or have incipient stock markets. Moreover, in almost every developing or emerging economy the set of institutions that provides the essential legal and regulatory framework and a competitive self-enforcing environment (otherwise known as external controls) is either absent or

weak. Yet without this framework, internal controls—no matter how well designed—will have little impact. These institutions provide a level playing field and ensure that internal corporate governance procedures adopted by firms are enforced and that management is responsible to owners and other stakeholders.

What follows is a description of the set of institutions that needs to be place in order for internal corporate governance controls to have a meaningful effect based on roundtable discussions with members of CIPE's Working Group on Corporate Governance and CIPE's extensive experience in promoting corporate governance worldwide. Obviously, each country needs to assess its weaknesses and take suitable remedial measures. The ensuing list is designed to point such efforts in the right direction so that structures that allow a good deal of freedom within the rule of law are established. These arrangements then build the foundation for trust—one of the most important ingredients in effective business.

*"But in all cases, trust is an essential ingredient for positive interaction between an organization and all the people its affects by its activities — its stakeholders. An organization s system of governance need to be designed and operated so as to facilitate the building and maintenance of trust."*

**-The Institute of Social and Ethical AccountAbility, the UK, www.accountability.org.uk**

***The institutional framework for effective corporate governance***

***Property rights***

One of the most essential institutions necessary for a democratic, market-based economy and for corporate governance measures to function is a property rights regime that establishes private property rights. It is essential that property rights laws and regulations establish simple and straightforward standards to specify clearly who owns what and how these rights can be combined or exchanged (for example, through commercial transactions),[9] and standards for recording required information (such as the legal owners of property, has the property been used as loan collateral, etc.) in a timely and cost-efficient manner into an integrated, publicly accessible data base. Investors will be extremely reluctant to provide capital to firms without legally stipulated and enforced property rights.[10]

[9] It is crucial that the laws and regulations correspond with the general public s understanding of and consensus on how assets should be held, used and exchanged. For more specific steps on how this can be accomplished see Hernando de Soto (2000) The Mystery of Capital; New York: Basic Books, p.160.

[10] Moreover, the lack of property rights institutions hinders companies from decentralizing, specializing, subcontracting with competitive suppliers, offering reasonable insurance premiums, and attracting investment -- foreign and domestic. It also complicates the use sophisticated and creative asset combinations such as incorporated companies or flexible shareholding arrangements such as debt-equity swaps, or engaging in long-term investments and contracts essential for economies of scale. As a result, an economy will not be equipped to compete globally and will run the risk of being excluded from global markets.

In this context, there are a few key types of legislation. The first is legislation that gives corporations juridical personality by recognizing their existence as legal "persons" independent of their owners, establishes corporate chartering requirements, and limits corporate owners' liability to the value of their equity in the corporation. The second is legislation that permits the establishment of joint companies.

### *Contract law*

Very few business transactions will occur without legislation and regulations that legally guarantee and enforce the sanctity of contracts. It is essential that such institutions protect suppliers, creditors, employers, employees and so forth.

### *A well-regulated banking sector*

A healthy banking system is an absolute prerequisite for a well-functioning stock market and corporate sector. The banking sector provides the necessary capital and liquidity for corporate transactions and growth. Good governance within the banking system is especially important in developing countries where banks provide most of the finance. Moreover, financial market liberalization has exposed banks to more fluctuations and to new credit risks.

As evidenced by the Asian and Russian crises, poorly governed banking systems and massive capital flight can seriously damage national economies. A framework that fosters a flexible yet safe and sound financial system is, therefore, crucial.

What is needed in this context are sound prudential requirements and effective banking supervision practices. The Bank for International Settlements provides some useful sets of standards and best practices that can be adapted to particular national systems to establish a sound, level playing field. The proposed New Capital Adequacy Framework offers more flexible and calibrated techniques for assessing capital adequacy and risks to align regulatory capital requirements with underlying risks.

The proposed framework is based on three pillars: minimum capital requirements; supervisory review of an institution's internal assessment process and capital adequacy; and effective use of disclosure to strengthen market discipline as a complement to supervisory efforts. (Detailed information about the standards is available online at the Bank for International Settlements' Web site: www.bis.org.) Together the pillars offer important mechanisms for ensuring that banks are managing capital responsibly and efficiently, and that they are financially viable. Moreover, each pillar fosters better governance within the corporate sector.

The first pillar, minimum capital requirements, provides banks and supervisors with a range of tools to accurately assess different types of risks so that a bank has an adequate amount of capital to cover these risks.

Determining the accuracy of capital adequacy requirements is useful only if such requirements are upheld. To this end, each bank has a set of policies and procedures to ensure adequate capital requirements, in particular, and sound bank management, in general. Such measures include undertaking credit risks; monitoring and disciplining large borrowers effectively; and adhering to stringent auditing procedures. In the end, it is the results of these internal processes that count and these depend on two factors.

The first is effective corporate governance of borrowers, usually firms. Banks need accurate information about a firm's condition in order to assess risks appropriately. This demands that a company has well-documented and thoroughly audited books that are made available to banks. In other words, firms need to have a well functioning corporate governance system in place. Banks that lend to companies under false pretenses or to firms that engage in fraud can suffer greatly when a firm is unable to repay its obligations. (Banks that recently lent to Enron are examples.) Hence, banks are increasingly making sound corporate governance practices a lending prerequisite.

The usefulness of internal bank processes also hinge on effective monitoring mechanisms that ensure compliance. The second pillar, the supervisory review process, is designed to do just that. Based on a set of standards, supervisors review a bank's internal processes in order to determine to extent to which these measures assess the bank's capital adequacy needs relative to a thorough evaluation of risks.

Besides the new standards that are part of the proposed framework, the Basel Committee on Banking Supervision developed a comprehensive blueprint for an effective supervisory system entitled, "*Core Principles for Effective Banking Supervision.*" The "*Core Principles Methodology*" explains how to implement and assess the principles.

The third pillar of the new framework bolsters the first two by strengthening disclosure requirements and thereby enhancing market discipline. The only way that market participants can evaluate the soundness of their dealings with banks is if they can understand and have access to banks' risk profiles and capital adequacy positions in a timely manner. Regular disclosure of this information will discipline banks because market participants will flock to banks that have sound practices and are financially viable. Market participants will avoid banks that take excessive risks without adequate capital provisions, and possibly those that do not undertake enough risk in order to remain competitive.

Disclosing banks' risk assessments can also improve corporate governance. Banks' company risk rankings provide important information about a corporation's financial viability. Shareholders can use this information to press management for changes or to discipline management by shifting their capital elsewhere.

Similarly, disclosing information about banks' ownership structures and relationships with other firms or the public sector fosters good governance of banks and corporations, and helps prevent moral hazard and financial meltdowns. Many developing countries experienced financial crises that stemmed from undisclosed transactions that were not conducted at arm's length.

Examples include the frequent and substantial direct or connected lending by banks to firms in the bank's business group that were not creditworthy. When this happens on a large scale, the impact can be as great as any other economic shock. In short, links between the government, banks and corporations should be at least disclosed so that shareholders and board members can respond accordingly, and, at best, severed. Similarly, there is increasing discussion about whether or not developing countries should require that commercial and investment banking activities be separated.[11]

### *Exit Mechanisms: Bankruptcy and foreclosure*

Because not all corporate endeavors will succeed, legislation that establishes orderly and equitable clearing and exit mechanisms is essential so that investments can be liquidated and reallocated into productive undertakings before they are squandered completely. Here what is necessary are laws and regulations that require financial and non-financial entities to adhere to rigorous disclosure standards concerning their debts and liabilities; and laws and procedures that allow for swift, efficient bankruptcy and foreclosure proceedings that are equitable to creditors and other stakeholders alike. The lack of transparency regarding company and bank debts was a major factor behind the Asian and Russian financial crises. Moreover, the lack of adequate and/or enforced bankruptcy and foreclosure procedures facilitated widespread asset-stripping by insiders.

**Creative destruction: the importance of exit mechanisms**

Excerpts from a CIPE-sponsored roundtable with corporate governance experts.

*"As a consultant to the Korean Ministry of Finance after the Asian crisis, I found it very interesting that there was a continuing reluctance to let the clearing mechanisms like bankruptcy and foreclosure work. You get right up to the edge, and then, at the end of the day, the government intervenes and does something somewhere."*
**Amb. John Bohn, Chairman and CEO, Global Venture Partners; former President, Moodys Investor Service; Chairman of the Board, CIPE**

*"In our business, we really only see a change of control of these firms when they have gone into so much debt that they cannot meet their obligations, and there is a forced restructuring, and that brings in equity."*
**Dan Konigsburg, former Analyst - Institutional Shareholders Services**

*"It's a tough sell when you go into a country and promote a policy that you're going to simply organize and promulgate a mechanism whereby people can, A, escape their debts and, B, get a fresh start. And yet, these mechanisms are designed, by and large, to free up resources for reallocation when the situation has seriously deteriorated."* **Amb. J. Bohn**

*"There would have to be a certain tolerance of volatility, and when you get to the end, the bankruptcy judgment, somebody loses, and somebody wins big, and that is a very tough thing to do in a society that isn't prepared for it. Mike Lubrano, Senior Securities Market Specialist, International Finance Corporation*

*"The key is to find an orderly way to institute clearing mechanisms over a fairly short period of time."*
**Amb. J. Bohn**

[11] For more information on this topic, see H. Blommestein and M. Spencer, "The role of financial institutions in the transformation to a market economy," IMF Working Paper WP/93/75, 1993.

### *Sound securities markets*

Efficient securities markets discipline insiders by sending price signals rapidly and allowing investors to liquidate their investment quickly and inexpensively. This affects the value of a company's shares and a company's access to capital. A well functioning securities market requires:

- Laws governing how corporate equity and debt securities are issued and traded, and stipulating the responsibilities and liabilities of securities issuers and market intermediaries (brokers, accounting firms and investment advisers) that are based on transparency and fairness. In particular, laws and regulations governing pension funds and allowing for open-ended mutual funds are extremely important;

- Stock-exchange listing requirements should be based on transparency and stringent disclosure standards — independent share registries would be useful in this regard;

- Laws protecting minority shareholders' rights (See the OECD Principles of Corporate Governance); and

- A government body such as a securities commission that has independent and qualified regulators empowered to regulate corporate securities transactions and to enforce securities laws.

The International Organization of Securities Commissions (IOSCO) has developed a series of useful standards to establish just, efficient and sound securities markets. These are available online at: www.iosco.org.

### *Competitive markets*

The existence of competitive markets is an important external control on companies forcing them to be efficient and productive lest they lose market share or go under. The lack of competitive markets discourages entrepreneurship, fosters management entrenchment and corruption and lowers productivity. For this reason, it is crucial that laws and regulations establish a commercial environment that is fair yet competitive. To this end, governments can:

- Remove barriers to entry
- Enact competition and anti-trust laws
- Eliminate protectionist barriers including the protection of monopolies
- Eliminate preferential treatment schemes such as subsidies, quotas, tax exemptions, to name a few
- Establish fair trade priorities
- Remove restrictions on foreign direct investment and foreign exchange
- Reduce the cost of setting-up and running a formal business[12]

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[12] For specific strategies on how to lower the cost of registering and running a formal business see Catherine Kuchta-Helbling, "Barriers to Participation: the informal sector in emerging democracies," The Center for International Private Enterprise, November 2001, available on CIPE s Web site at: www.cipe.org/efn/informalsector/papers/.

The World Trade Organization (www.wto.org) and the International Labour Organisation (www.ilo.org) provide standards that are useful in creating a competitive and equitable commercial environment.

***Take-over markets***

Another vital element of a competitive commercial environment is the existence of a market for corporate control. Such a market disciplines insiders and encourages them to improve firm performance or risk losing control over it, or face bankruptcy. This means that firms or investors can, under certain conditions, take control of an underperforming firm in the hopes that, by running it themselves, they will create additional value. In this case, specific laws and implementation rules (such as those governing proxy contests and takeovers) need to be clear and specific (so that management can't delay or derail a takeover attempt).

Establishing effective takeover markets can incur strong resistance even within well-developed economies. This is particularly the case when companies are faced with hostile takeovers or with takeovers bids from foreign companies or foreign nationals. For the past twelve years, the European Commission has been struggling to adopt a Europe-wide takeover code that would pave the way for cross-border mergers and acquisitions. An attempt last year was fiercely opposed by German companies who argued that the failure to ban the use of shares with special voting rights—including the right to veto a takeover—put companies without such rights at a disadvantage. Moreover, such rights could be used to shield management from accountability. A new code that suspends special voting rights during takeovers and stipulates fair share acquisition prices is being finalized and has the initial endorsement of German leaders and the European internal market commissioner.

Establishing orderly and transparent takeover markets is crucial so that mergers and acquisitions can be and are undertaken for economically justifiable reasons in a manner that is fair to all stakeholders. Valid takeover contests and well-implemented mergers and acquisitions usually strengthen corporate governance by improving a firm's internal management and thereby providing more economic benefits for outsiders and creditors than if the firm continued to underperform under the former management.

***Transparent and fair privatization procedures***

How enterprises are privatized not only affects the ownership structure but reflects a country's corporate culture. Having transparent, straightforward and fair rules and procedures stipulating how and when enterprises can be privatized is, therefore, essential. Ill-designed privatization schemes can devastate an economy and negatively influence the business environment.

***Transparent and fair taxation regimes***

Taxation systems should be reformed so that they are fair, simple and straightforward. In this regard, multi-step, complex procedures on fiscal reporting that allow officials' to exercise

considerable discretion and therefore engage in corruption should be eliminated. Tax laws and regulations should also require adequate and timely disclosure of financial information, and should be enforced, consistently, timely and effectively.

***An independent, well-functioning judicial system***

One of the most important institutions of a democratic, market-based economy is an independent, well-functioning judicial system. Very few, if any, of the necessary measures described above or below would have any impact without a sound judicial system that enforces laws consistently, efficiently and fairly thereby maintaining the rule of law.[13] In this regard, the following mechanisms are helpful to strengthen and maintain essential administrative and enforcement capacities:

- cultivate a staff of well-qualified civil servants;
- hire and promote staff based on verifiable professional standards (through standardized tests);
- offer civil servants vocational training based on the latest technology;
- pay adequate salaries to attract well-qualified professions and to deter bribe taking; and offer tenure based on performance (not on the election cycle).

The capacity of the judiciary can also be bolstered by providing sufficient financial and technical resources to administer laws expediently.[14]

***Anti-corruption strategies***

Implement effective anti-corruption measures by specifying and streamlining legal and regulatory codes, clarifying laws on conflict of interest, adopting and implementing Transparency International's Government Procurement Code, and adopting and adhering to the OECD's Anti-Bribery Convention.[15]

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[13] For a comprehensive overview of the challenges involved in creating an impartial and independent judiciary, see Pilar Domingo, (1999), "Judicial Independence and Judicial Reform in Latin America," in Andreas Schedler et al., eds., The Self-Restraining State: Power and Accountability in New Democracies. Boulder, Co.: Lynne Rienner, pp.151-175.

[14] In addition to these suggestions, alternative means to resolve disputes out of court through arbitration is one way to lighten the courts load and expedite conflict resolution. In countries where commerce is regulated by civil codes not bound by precedent (including many in Latin America), laws and regulations can be overturned by decree, greatly weakening stability.
Some scholars suggest that greater horizontal accountability or checks and balances be instituted to minimise frequent, radical changes to the legal and regulatory framework and general abuses of governmental power. For more information, see Andreas Schedler, Larry Diamond, and Marc F. Plattner, eds., (1999), The Self-Restraining State: Power and Accountability in New Democracies. Boulder, Co.: Lynne Rienner.

[15] For a whole host of articles and links about reducing corruption, please see CIPE s Web site: www.cipe.org. See also the Final Report on the Washington Conference on Corruption, "Fighting Corruption in Developing Countries and Emerging Economies: the role of the private sector," sponsored by USAID, PriceWaterhouseCoopers, and CIPE, February 1999.

***Reform government agencies***

Government agencies that are excessively bureaucratic and inefficient need to be reformed. This can be accomplished by streamlining and simplifying agencies' internal operating procedures and by regularly evaluating agencies' performance according to clear, well-defined standards. Measures to improve poorly performing agencies need to be implemented promptly and comprehensively. By way of example, when exported and imported goods are held up for lengthy periods of time in government-owned ports by customs authorities entrepreneurs' costs increase and the competitiveness of these goods decreases; moreover, the temptation to ask for and pay bribes to speed up the process increases.

***Strengthen administrative and enforcement capacity of government agencies***

Strengthen and maintain government agencies' administrative and enforcement capacity by cultivating a staff of well-qualified civil servants, hiring and promoting staff based on verifiable professional standards (through standardized tests), offering civil servants vocational training based on the latest technology, paying adequate salaries to attract well-qualified professions and to deter bribe taking, and offering tenure based on performance (not on the election cycle). The capacity of government agencies can also be bolstered by providing sufficient financial and technical resources to administer laws expediently.

***Establish routine mechanisms of participation***

Establishing the necessary institutional framework for corporate governance to take root requires reforming many existing laws and regulations and creating new ones. In order to ensure that the new framework creates a level playing field, citizens need to have ample opportunity to participate in crafting it. Here establishing routine mechanisms to participate in the policymaking process on a daily basis are key. The Sana'a Declaration provides a set of measures designed to enhance the degree of public participation in the policymaking and legislative processes. (For the complete text, see http://www.cipe.org/ert/e35/e35_15.php3.)

***An investigative and informed media***

In order to monitor managers' performance, investors, creditors, workers, and others need information about decisions made by managers and board members and about firms' performance. Unlike the corporate director, they do not have the time or resources to compile and analyze the information needed to make sound decisions. This is where the media, especially the financial media, comes into the picture. A vigorous and well-informed journalist community is essential for the small investor and for the other stakeholders in society, including employees. It is also a vital element of a democratic society.

***Strengthening reputational agents***

Reputational agents are individuals and/or groups that reduce the information gap between insiders and outsiders by seeking and providing information to outsiders about the performance of insiders and enterprises and by setting high professional standards and then applying peer pressure and, at times, sanctions to uphold them. For this reason, it is important to provide the necessary training and environment in which such agents can thrive. Examples of reputational agents include:

- Self-regulation bodies such as accounting and auditing professionals
- The media (mentioned above)
- Investment bankers and corporate governance analysts,
- Lawyers
- Credit rating agencies
- Consumer activists
- Environmentalists

Activist investors and shareholders such as institutional investors[16] and venture capitalists

Each of these individuals or groups have a particular type of expertise, and the resources and responsibilities to undertake intensive monitoring to bridge the information gaps between insiders and outsiders.

***An active, integrity-based business community***

Members of the private sector such as business associations and chambers of commerce, can, and in many countries do, play an important role in promoting corporate governance by developing local codes of conduct and ethical business practices based on fairness, transparency, accountability and responsibility. CIPE has and continues to work with numerous private sector organizations across the globe to develop and implement sets of locally developed best practices for business. (For more information see: www.cipe.org).

In addition, the Global Sullivan Principles offer businesses valuable recommendations designed to foster a more transparent, accountable, equitable and responsible environment. (For the full text of these Principles see: http://www.cipe.org/ert/e35/e35_16.php3.)

***Sound stakeholder relationships are good for business***

A common misconception is that achieving profits and looking after stakeholders' (such as employees, creditors, suppliers, customers, environmentalists and members of the community at large) interests are opposing goals. Some of the world's most successful companies have shown that this is not at all the case for several reasons.

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[16] The California Public EmployeesÕRetirement System (CalPers) has developed a very active program to promote good corporate governance and they, along with other pension funds, are using their investment clout to force change. CalPersÕhas taken this approach in order to increase the returns on their investments by ensuring that the firms are well run and that corporate strategies are well thought out. As more and more pension fund investments flow into developing countries, these funds can be expected to make similar demands in these countries. CalPers also has an excellent Web site which hosts their recommendations for improvements in corporate governance. (www.calpers-governance.org)

Operating fairly, responsibly, transparently and accountably, towards both shareholders and stakeholders does more than improve a company's reputation and attract investment, it gives the corporation a competitive advantage. Firms rely on stakeholders to provide a series of essential inputs such as goods and services in the form of labor, parts, and supplies on a predictable basis. Interruptions in the supply of these goods and services will harm the company's ability to operate, sell its products and thus survive — let alone make profits. Hence, cultivating and maintaining productive relationships with stakeholders is in a company's best, long-term interest.

In recent years, company managers and directors learned this lesson the hard way. In the late eighties and early nineties, for example, some companies sought to cut costs by firing well-paid, senior staff and hiring new employees at lower salaries, but with little training. More often than not, the productivity of these firms plummeted and they ended up hiring back many former staff as consultants. In some cases, companies' operating costs ended up being even higher than before the mass lay-offs negating any cost savings and reducing profits.

In contrast, firms that realize that their employees are important assets by paying and treating them fairly and investing in training, will have a top-notch, committed work force that is able to adapt to the challenges of globalization and produce quality products. Employees, for their part, will learn essential new skills and enjoy stable, well-paid jobs.

A company's treatment of other stakeholders such as suppliers is just as important to the company's long-term performance. A firm that breaks a contract with a supplier or pays unfair prices not only hurts the supplier, but damages its own reputation as a reliable and honest business partner. Other suppliers will be reluctant to conduct business with this company thereby jeopardizing the supply of crucial inputs. Moreover, firms that switch suppliers solely based on cost considerations may wind up with an inferior final product that could jeopardize their overall sales levels and reputation.

In short, firms that treat stakeholders fairly and include them in long-term strategy-planning sessions, minimize the risk that these stakeholders will use their power to extort resources from the company by charging exorbitant fees for specialized inputs—whether it be parts of technical assistance— or by failing to uphold contracts. Stakeholders will quickly realize that their fate hinges partly on the firm's performance and visa versus.

Healthy relationships between firms and stakeholders can also boost a company's market share. Employees (whether company staff, suppliers or vendors) that are well paid and enjoy stable jobs or contracts will have the money and the incentive to buy firm products thereby increasing the company's value and profits.

There are other ways that companies can increase profits while offering stakeholders benefits. A firm that provides infrastructure, education and training programs gives the community useful resources. Local citizens and policymakers will, in turn, have an incentive to return the favor by providing the company with a hospitable business climate in terms of laws and regulations. This can greatly reduce a firm's operating costs thereby enhancing competitiveness and increasing profits.

In sum, tending to stakeholders' interests and maximizing profits go hand-in-hand. Successful company strategies are based on these twin goals. As financial investment expert Patricia A. Small pointed out,

> "Care and profits go hand in hand with productive growth. Stated another way, care and profits go hand in hand with the wise use of capital."

Achieving these aims calls upon members of the private sector to exercise leadership and to set an example by ensuring that all company activities and relationships are handled fairly, responsibly, transparently and accountably.[17]

> "Increasingly cutting edge developments in good practice are oriented to an inclusive approach, a form of governance based on engagement with stakeholdersÉ This isnÕt about organizations abdicating responsibility for their activities, but rather using leadership to build relationships with stakeholders and improve all aspects of their performanceÉIndeed, long-term studies have shown the enduring financial benefits to companies that are focused on values other than short-term profitabilityÉ"
> The Institute of Social and Ethical AccountAbility, the UK — www.accountability.org.uk

***Corporate governance challenges in developing, emerging and transitional economies***

Establishing any one of these institutions is a necessary and challenging undertaking without which democratic markets and corporate governance can not take root. The fate of entire economies hinges on meeting these challenges. Success requires that the private and the public sectors work together to establish the necessary legal and regulatory framework and a climate of trust through ethical behavior and oversight.

While the set of institutions described above is designed to be comprehensive, each region is in a different stage of establishing a democratic, market-based framework and a corporate governance system. Hence, each nation has its own particular set of challenges. Some of the general challenges confronting developing, emerging and transitional economies include:

- Establishing a rule-based (as opposed to a relationship-based) system of governance;
- Combating vested interests;
- Dismantling pyramid ownership structures that allow insiders to control and, at times, siphon off assets from publicly owned firms based on very little direct equity ownership and thus few consequences;
- Severing links such as cross shareholdings between banks and corporations;
- Establishing property rights systems that clearly and easily identify true owners even if the state is the owner; (When the state is an owner, it is important to indicate which state

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[17] For more information, see William S. Kanaga, "Corporations Must Act Ethically." CIPE, Economic Reform Today, 1, 1999. Available online at: www.cipe.org/ert/e31/e31-1.php3.

branch or department enjoys ownership and the accompanying rights and responsibilities.);

- De-politicizing decision-making and establishing firewalls between the government and management in corporatized companies where the state is a dominant or majority shareholder;
- Protecting and enforcing minority shareholders' rights;
- Preventing asset stripping after mass privatization;
- Finding active owners and skilled managers amid diffuse ownership structures;
- Promoting good governance within family-owned and concentrated ownership structures; and
- Cultivating technical and professional know-how.

***Corporate governance is not only a private sector affair***

Another significant challenge facing developing, emerging and transitional economies is instituting corporate governance within public enterprises. In many developing, emerging, and transitional economies public sector companies contribute more to the nation's gross national product, employment, income, and capital use than private sector firms. Moreover, public sector companies often shape public policies. As a result, instituting sound corporate governance within public sector companies is essential to economic development, growth and reform.

This is true even for countries intent on or in the midst of privatization. To begin with, public companies need to be corporatized before they can be privatized. The corporatization process can, at times, be lengthy. Even after corporatization, it takes time before the new company benefits from active owners and skilled managers. In the meantime, good management of the company will ensure that the company's resources are managed efficiently and fairly thereby increasing the company's productivity and value.

There are other scenarios calling for governance practices within the public sector. Public companies, for example, may gain control of previously privately owned firms through joint ventures. In addition, some public economic entities may never be privatized because they are considered vital to national security or politically sensitive. Obviously, these companies would benefit from sound corporate governance.[18]

***Successful strategies for instituting corporate governance in different regions – one size does not fit all***

Many international organizations are funding corporate governance initiatives that aim to put in place developed country models of corporate governance. More often than not, this fails to instill or improve corporate governance because these models are not designed for local realities and challenges. As a result, indigenous groups are then faced with the task of adapting the international model to local conditions.

For this reason, CIPE takes a different approach to promoting corporate governance in developing, emerging, and transitional economies. Over the last few years, CIPE has organized several

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[18] For more information about the importance of corporate governance in public enterprises and for a copy of "The First Principles of Corporate Governance for Public Enterprises in India: Yaga Principles for PEs," October 2001, email: yaga@hd1.vsnl.net.in. See also the Private Sector Corporate Governance Trust Web site: www.corporategovernance.co.ke.

corporate governance conferences and workshops in different regions of the world. These activities brought together members of the business community and think tanks, and market participants to forge their own approach to corporate governance on country-by-country basis. Specific strategies hinge on the following aspects:

- Is the government interested in reform?
- Is the government aware of the issues?
- Are there independent centers of power (outside the government)?
- Are there existing levers for reform, such as a stock market, banks' published risk assessments, a legal code and so on?
- What is the level of public awareness?

**ROMANIANS DEVELOP A VOLUNTARY CODE OF CORPORATE GOVERNANCE**

In a CIPE-sponsored project in Romania, the International Center for Entrepreneurial Studies (ICES) and the Strategic Alliance of Business Associations (SABA) mobilized members of the business and financial community, policy experts, economic journalists and government representatives into a working group that developed a Voluntary Code of Corporate Governance for Romania.

To being the process, the working group reviewed global best practices, assessed Romanian corporate governance legislation and practices, and then developed a corporate governance strategy for Romania entitled, Blueprint for Action.

Next, Dr. Anton of SABA and D. Pascal of ICES traveled to the US for a corporate governance study tour. They met with corporate governance experts to gain insight into sound legal and regulatory frameworks and best practices, and to receive feedback on their Blueprint for Action. Based on their study tour experiences, Anton and Pascal developed corporate governance training materials for Romania. These training materials were used to train SABA members on how to implement corporate governance practices.

In order to unveil the Blueprint for Action and receive business community feedback, SABA held a national corporate governance workshop attended by 42 members of the private sector. Workshop participants offered valuable feedback on the Blueprint for Action and formed a corporate governance network.

In an effort to broaden the coalition of groups advocating for improved corporate governance, ICES and SABA invited members of the business and financial community, policy experts, economic journalists and government representatives to participate in a series of 10 roundtables held in different regions throughout Romania. Each roundtable identified corporate governance priorities in terms of laws and practices.

Based on the roundtable results, the working group produced a Draft Corporate Governance Code of Best Practices. The draft code was presented to 72 members of the corporate governance network and working group for their review and feedback.

A National Task Force on Corporate Governance consisting of 10 national private and public sector organizations was then formed. The Task Force incorporated workshop feedback and completed a Voluntary Code of Corporate Governance for Romania.

SABA featured the code in a newsletter and a policy paper that were widely distributed to members the private sector, civil society, including the media, and the government in order to garner their support for the code.

The project increased awareness of and support for corporate governance in Romania and mobilized the private sector to take a leading role in shaping and advocating sound corporate governance practices tailored to Romanian realities. The code has proven to be a key advocacy tool and has improved the Romanian business climate. Parts of the code were adopted by the Bucharest Stock Exchange. Moreover, the code has received local and international attention (an English version was distributed in Europe and the US). The Romanian corporate governance network continues to actively promote sound corporate governance reforms to this day. For more information about the code see:
www.softchim.ro/cisa/StartEN.htm

The following list of CIPE-sponsored projects from different regions will illustrate how local business communities are creating the demand for, and are developing and implementing corporate governance strategies.

## CIPE-SPONSORED CORPORATE GOVERNANCE PROJECTS

### AFRICA

Kenya:

- As part of a long-standing effort, the Private Sector Corporate Governance Trust (PSCGT) has launched an educational project to promote the importance of good corporate governance and the democratic principles of transparency, fairness, accountability and responsibility in Kenya's private sector. PSCGT will help foster sustainable economic development by working with shareholders and community leaders. This program will also assist in creating a new non-governmental association to defend shareholder rights in Kenya. (http://www.corporategovernance.co.ke)

Ghana:

- Building on recent anti-corruption and corporate governance initiatives, the African Capital Markets Forum (ACMF) is analyzing the linkage between corporate governance and corruption in Ghana. Based on a survey of private companies and state enterprises, ACMF will seek to demonstrate the effectiveness of sound corporate governance practices in reducing the incidence of corruption. The analysis will generate recommendations for strengthening corporate governance and combating private sector driven or "supply-side" corruption.

Regional:

- The Center for International Private Enterprise (CIPE) sponsored a two-day conference in Accra that brought together over 50 public and private sector participants from Ghana and Nigeria to develop strategies to improve corporate governance practices, policy, and education at the country level and define mechanisms for regional exchange and coordination. The conference was made possible with funding from the National Endowment for Democracy (NED) and Exxon-Mobile, and in cooperation with the Institute of Economic Affairs (IEA) in Ghana and the Development Policy Center in Nigeria.

- CIPE also organized the first-ever Pan-African event on corporate governance in Johannesburg in cooperation with Global Corporate Governance Forum, the Commonwealth Association for Corporate Governance, and many other leading African and global sponsors. The conference brought together over 220 business, government, and NGO leaders to build corporate governance awareness in the region and to discuss the challenges of implementing corporate governance practices and principles.

## ASIA

Philippines:

- CIPE co-sponsored a three-day regional workshop in Cebu with the Institute of Corporate Directors to bring together market players in East Asia to push for corporate governance reforms throughout the region. The workshop identified corporate governance best practices among affected institutions, offered recommendations for reforms in Asia, and promoted a more transparent relationship between the public and private sectors.

Indonesia:

- CIPE formed a partnership with the Indonesian Chamber of Commerce and Industry (KADIN) to place corporate governance reform and business ethics in the forefront of the debate for institutional changes within Indonesian society. KADIN is developing a code for Indonesian firms based on international standards and will promote adoption of more stringent principles through its member trade associations.

China:

- CIPE and the Chinese Center for Corporate Governance organized a conference in Beijing on corporate governance reform. China is introducing new stricter standards of corporate governance for firms listed on its two securities exchanges, and this program will bring Chinese officials and business executives together with overseas experts and practitioners to discuss specific international standards that may be relevant to the Chinese context.

## CENTRAL AND EASTERN EUROPE

Czech Republic:

- CIPE and the Central European University developed a program to build an understanding of the responsibilities of corporate governance, thus strengthening emerging corporate institutions in Central Europe. After testing the impact of the program in the Czech Republic the subsequent two phases concentrated on replicating the program through the training of instructors and the translation of materials for licensed courses to be taught in Hungary, Poland, Ukraine, and Russia.

Albania:

- Acknowledging the critical nature of effective corporate governance in ensuring successful privatization in Albania, the Center for Economic and Social Studies (CESS) has completed a comprehensive research and advocacy program on corporate governance and privatization. The success of privatization depends on the introduction of core system of corporate governance principles and practices that ensure these vital enterprises are managed in an open and responsible manner.

Bulgaria:

- The Center for Economic Development in Sofia conducted a program to provide a general introduction to corporate governance values and principles for specific interest groups including; State Owned Enterprises, capital market institutions, policy makers, and the

media. CED organized and administered four one-day training seminars to address a variety of issues surrounding corporate governance and provide a discussion between CED researchers and affected groups as to the challenges they face in implementing corporate governance procedures.

- Over the past two years the Corporate Governance Initiative has influenced changes in legislation by building public/private partnerships as part of a broader advocacy strategy designed to promote corporate governance best practices. Spearheaded by the Center for the Study of Democracy, the CGI has completed the Corporate Governance Assessment Report and Corporate Governance Guidelines. These documents address critical issues such as: voting rights and equal treatment of all shareholders; board structure and the role of managing bodies; and disclosure and transparency. (www.csd.bg/cgi/)

- The Center for International Private Enterprise and the Center for the Study of Democracy organized a corporate governance regional conference, September 22-23, 2000 in Sofia. The conference allowed the business community and think tanks worked together to forge their own approach to corporate governance. This was complemented by a Corporate Governance Clinic that elaborated the "main pillars" of corporate governance codes.

Slovak Republic:

- The Center for Economic Development's project on corporate governance is based on previous research and advocacy programs sponsored by CIPE and the National Endowment for Democracy. CED is focusing on harmonizing corporate governance in Slovakia with current international standards and best practices. By analyzing relevant issues such as legislation and the education of supervisory boards this program facilitates the four key values associated with corporate governance: fairness, accountability, transparency, and responsibility. (www.cphr.sk)

Romania:

- Corporate governance reform fosters higher operating and reporting standards among private and public enterprises, helping to build stronger boards of directors, shareholder rights, and accepted standards for financial accountability and transparency. The Private Entrepreneurs Confederation of Timis County is a necessary, nonpartisan voice, providing local leadership on ethical business policies and practices. PECT works to extend the business knowledge and leadership skills of its members in cooperation with the Strategic Alliance of Business Associations and is organizing a Corporate Governance National Task Force.

Regional:

CIPE was awarded a USAID regional grant to promote corporate governance in Central and Eastern Europe and the NIS. The purpose of this "Corporate Governance Initiative for the Transitional Economies" is to increase awareness of the need for effective corporate governance policies and practices among policy makers, business leaders, and the financial market interme-

diaries. The project will also develop policy initiatives that could be applied in the region aimed at increasing investor confidence. The concept for the project is that corporate governance reform will succeed if the business community demands it. Activities include:

- The Marek Hessel Small Grants Program – A competitive grants project awarding up to six $25,000 grants to organizations and coalitions wishing to promote corporate governance principles.

- Corporate Governance Training – Utilizing materials developed by CIPE and its partners to enable local training approaches for corporate governance. This may include support for the creation of Director's Institutes, distance education programs, and courses within existing educational institutes.

- Tool Kit for Corporate Governance – Creating a basic set of materials based on project experiences, that can guide those who wish to promote CG standards, with a variety of approaches and models on how to identify issues, build coalitions, and communicate recommendations.

- Networking of Organizations – Through conferences and a Web site, CIPE is working to build an informal regional network of business and policy groups focusing on these issues.

**EURASIA**

Russia:

- To enhance corporate governance in Russia, CIPE is working with the Moscow-based Institute for Stock Market and Management in developing training, examination and certification materials to educate corporate directors on fundamental corporate governance principles. The project targets directors to develop a corps of trained, professionals who can carry out their responsibilities on Boards of Directors. These directors will support democratic and corporate governance principles and best practices in Russian companies.

- CIPE and the Investors Protection Association (IPA) have developed a Web site dedicated to corporate governance in Russia and includes information on corporate governance and protection of investors' rights in the Russian market. The Web site, implemented within the framework of the OECD/World Bank - Russian Corporate Governance Roundtable, is available in English (http://www.corp-gov.org) and in Russian (http://www.corp-gov.ru).

- CIPE, the Investors Protection Association and the Russian Managers Association surveyed 300 Russian businesses to identify those with independent Boards of Directors. The survey generated considerable interest among Russian and international investors, and in the media, including The Financial Times (Wednesday, March 14, 2001). Russian businesses need to improve corporate governance practices to attract much-needed domestic and foreign investment, but the survey suggests that executives of major Russian companies recognize this need and see value in independent directors.

- CIPE worked with two shareholder rights groups to hold a one-day seminar in February 2000 in Ekaterinburg, a formerly closed city in the Urals, nearly 900 miles east of Moscow. This seminar was a successful, in part, because Russians helped design, co-hosts, and speak at the event.

- CIPE teamed up with the OECD and the World Bank to co-sponsor a roundtable on Corporate Governance in Moscow that included over 100 participants and focused on property rights, disclosure information, shareholders rights, and preventing abusive self-dealing. The Public Committee on Shareholders Rights in Voronezh drafted a corporate governance charter based on information from this roundtable and is now working with local companies to adopt this charter and introduce its principles into the real-life practices of their businesses.

Kazakhstan:

- The University of International Business is working to build support among a coalition of non-governmental organizations on the need for corporate governance. "Building the Grassroots Foundation for Corporate Governance in Kazakhstan," will survey coalition members regarding the state of corporate governance and organize a conference for all stakeholders in Almaty.

For additional information on Corporate Governance in Central and Eastern Europe/Eurasia, please visit the following Web sites:

Bulgaria:

- www.csd.bg/cgi/ — The Corporate Governance Initiative for Bulgaria (CGI) is a coalition of non-governmental organizations established in 1999. The main objective is to facilitate the adoption of relevant corporate governance standards and procedures that would ensure accountability and transparency in business.

- www.ced.bg — The Center for Economic Development encourages the private and public sector to jointly work to improve corporate governance and promote enforcement of legislation. The CED has been working with the international, Bulgarian and other private sector organizations throughout the area to improve corporate governance practices and principles.

Romania:

- www.softchim.ro/cisa/StartEN.htm – The International Center for Entrepreneurial Studies offers a voluntary code of corporate governance developed by the Romanian Strategic Alliance of Business Associations and adopted in part by the Bucharest Stock Exchange.

Poland:

- www.pfcg.org.pl/pfcg/index_eng.htm — The Polish Corporate Governance Forum is an independent, pro bono initiative of the Gdansk Institute for Market Economics. It provides up-to-date information on the most interesting papers, research activities and events in corporate governance in Poland and other Central and Eastern European countries.

Russia:

- www.corp-gov.org — Corporate Governance in Russia, A joint project of the Center for International Private Enterprise and the Investor Protection Association, implemented the Russian Corporate Governance Roundtable Series. Here you can find information on corporate governance and the protection of investors' rights in the Russian market, and share your own experiences.

- www.rid.ru – The Russian Institute of Directors focuses on putting in place efficient corporate governance principles in Russian companies, and includes the recently drafted Code of Corporate Conduct. Key partners of the Institute include the Federal Commission for the Securities Market in Russia, the OECD and the Institute for Stock Market Management, a long-time CIPE partner governance reform.

**LATIN AMERICA AND THE CARIBBEAN**

Colombia:

- The Colombian Confederation of Chambers of Commerce (Confecámaras) is educating Colombian public and private stakeholders on sound principles of corporate governance through training programs, a Web site, publications, and other outreach activities. The initiative is engaging policymakers, businesspeople and academics to formulate a Declaration of Corporate Governance Principles for Colombian business organizations. Confecámaras is also advancing legislative recommendations regarding stock market regulations proposed by the Stock Exchange Commission of Colombia. To date, Confecámaras' activities have contributed to legislative reform concerning shareholders' rights, as well as conflict-of-interest issues, alternative dispute resolution methods, and board of director responsibilities.

Regional:

- CIPE is building on its training experience, private sector networks, and past corporate governance programs in order to create greater openness and discourage cronyism. A comprehensive curriculum focuses on issues of transparency and anti-corruption and offers advocacy and implementation strategies with special transition case studies. CIPE will conduct a pilot training session in one country to encourage businesses to adhere to norms of transparency and accountability and to assume a leadership role in promoting democratic governance. This program will support the private sector's role in democracy and governance issues throughout Latin America.

- CIPE is working with the National Economic Research Center (CIEN) in Guatemala to promote democracy and competitiveness in El Salvador, Honduras, Guatemala and Nicaragua through the adoption of sound economic policies and international business standards integral to corporate governance. To this end, members of the private sector in each country will develop and advocate a national business agenda.

## MIDDLE EAST AND NORTH AFRICA

Egypt:

- CIPE and the Federation of Egyptian Industries, Egypt's largest business organization, brought together over 120 business leaders and policy makers to discuss corporate governance and the future of the country's economic and democratic development. Full disclosure of financial information; conflicts of interest involving boards of directors and managers; procedures for bankruptcy; property rights; contract enforcement; corruption and theft; and adopting good business practices were discussed in detail.

- The Egyptian Capital Markets Association is conducting a corporate governance program for the capital market community, and senior management staff of publicly listed companies about rules and practices of corporate governance and why it is essential to build a true market-oriented economy. A conference in Cairo, "Corporate Governance in Egypt: The Road Ahead," had over 400 including, regulators, brokers, public officials, and the media. Workshops included specific issues, such as standards for transparency and disclosure; preparation and publishing of financial statements; corporate strategy and future plans; stakeholders' interest, and press and media relations.

## A GUIDE TO USEFUL RESOURCES

***Challenge: Identifying Corporate Governance Codes and Best Practices***
***Resources:***
Many organizations and companies have come up with codes of best practice to institute sound corporate governance systems. The following are among some of the key codes that have been developed within the last few years.

- Corporate Governance and Transparency in Emerging Markets, the Institute for International Finance (February 2002): www.iif.com/data/public/NEWEAG_Report.pdf

- The OECD Principles of Corporate Governance (1999): www.oecd.org

- Revised OECD Guidelines for Multinational Enterprises (2001): www.oecd.org

- Desirable Corporate Governance in India—A Code, The Confederation of Indian Industry: www.ciionline.org/busserv/corporate/backup/cgcode.htm

- Cadbury Schwepps Code of Conduct: http://www.cadburyschweppes.com

- The King Report on Corporate Governance for South Africa 2001: www.iodsa.co.za

- Principles for Corporate Governance in the Commonwealth, the Commonwealth Association for Corporate Governance (November 1999): www.combinet.net

- Corporate Governance Guidelines, General Motors Corporation: www.gm.com/company/investor_information/stockholder_info/corp_gov/guidelines.htm

- The Combined Code: Principles of Good Governance and Code of Best Practice, The UK Committee on Corporate Governance (May 2000), www.fsa.gov.uk/pubs/ukla/lr_comcode.pdf

- International Corporate Governance Network (ICGN) Principles: www.icgn.org/principles.html

  Statement on Global Implementation of ICGN Voting Principles (July 2000)
  Statement on Global Corporate Governance Principles (July 1999)
  Statement on Stock-Based Incentive Scheme Principles (July 1999)
  Global Share Voting Principles (July 1998)

***Challenge: Training Corporate Directors***
***Resources:***

- The National Association of Corporate Directors http://www.nacdonline.org/
- The Russian Institute of Directors http://www.ricd.ru/news.php?arc=yes&l=en
- The Institute of Corporate Directors, The Philippines: www.icd.ph
- The Institute of Directors in Southern Africa: www.iodsa.co.za

***Challenge: Establishing and Maintaining Accounting and Auditing Standards***
***Resources:***

- The International Accounting Standards Board: www.iasc.org.uk

- The International Federation of Accountants: http://www.ifac.org/

- Accounting Directory – Associations: http://cpateam.com/accounting-associations.htm

***Challenge: Establishing Sound Property Rights Regimes and Well-Functioning Government Agencies***
***Resources:***

- For techniques on how to establish sound property rights systems, see the Web site for the Institute for Liberty and Democracy in Lima, Peru: www.ild.org.pe

- For information on protecting intellectual property rights through international treaties, see the Web site of the World Intellectual Property Organization: www.wipo.org

- The World Bank's Annual Development Reports give a comprehensive overview of many of the supportive governmental services essential for a modern economy; in particular, see "The State in a Changing World," *World Development Report 1997*, www.worldbank.org

***Challenge: Establishing and Maintaining Sound Banking and Financial Systems***
***Resources:***

- The Basel Committee on Banking Supervision has established some useful sets of standards and best practices that can be adapted to particular national systems to establish a sound, level playing field. These include:
  The New Basel Capital Accord: http://www.bis.org/publ/bcbsca.htm
  Core Principles for Effective Banking Supervision: www.bis.org/publ/bcbsc102.pdf
  Core Principles Methodology: www.bis.org/publ/bcbs61.pdf

- The IMF and the Bank for International Settlements worked with a representative group of central banks, financial agencies and other experts to create a Code of Good Practices on Transparency in Monetary and Financial Policies. The code is available on the IMF's Web site: www.imf.org. This site also provides a series of experimental reports on the Observance of Standards and Codes on a country-by-country basis.

***Challenge: Establishing and Maintaining Sound Securities' Markets***
***Resources:***

- The International Organization of Securities Commissions (IOSCO) has developed a series of useful standards to establish just, efficient and sound securities markets. These are available online at: www.iosco.org.

- Various stock exchanges across the world have issued governance policies. These are available online at: www.worldbank.org/html/fpd/privatesector/cg/codes.htm

***Challenge: Establishing Competitive and Equitable Markets***
***Resources:***

- The World Trade Organisation (www.wto.org) and

- the International Labour Organisation (www.ilo.org) provide standards that are useful in creating a competitive and equitable commercial environment.

***Challenge: Combating Corruption***
***Resources:***

- CIPE's Web site, www.cipe.org, offers a range of materials and links to other sites relevant to corporate governance and anticorruption.

- Transparency International, www.transparency.de, provides additional information about transparent business practices worldwide, a model government procurement code; and the perceptions index on corruption.

- The OECD has developed a comprehensive anti-bribery convention that is an excellent starting point and a set of corporate governance guidelines. See www.oecd.org

***Challenge: Strengthening Democratic Governance***
***Resources:***

- The National Democratic Institute-sponsored Sana'a conference gathered 350 decision-makers from sixteen developed and developing countries to elaborate action agendas to strengthen democratic governance. For their final declaration, see www.ndi.org

***Challenge: Mobilizing Members of the Private Sector to Develop and Implement Best Practices***
***Resources:***

- CIPE has and continues to work with numerous private sector organizations across the globe to develop and implement sets of locally developed best practices for business. For more information see: www.cipe.org

***Challenge: Establishing Sound Stakeholder Relationships***
***Resources:***

- The Institute of Social and Ethical AccountAbility has developed tools and systems for accountability management and sustainable development, see: www.accountability.org.uk

- The Global Sullivan Principles offer businesses valuable recommendations designed to foster a more transparent, accountable, equitable and responsible environment. For the full text of these Principles see: www.cipe.org/ert/current/e35_16.php3.

- The International Business Leaders Forum promotes responsible business practices internationally that benefit business and society, and which help to achieve social, economic and environmentally sustainable development, particularly in new and emerging market economies. For more information see: www.csrforum.com

- The Centre for Tomorrow's Company is a think-tank and catalyst, researching and stimulating the development of a new agenda for business. For more information see: www.tomorrowscompany.com

***Challenge: Mobilizing Institutional Investors to Promote Corporate Governance***
***Resources:***

- The California Public Employees' Retirement System has developed a very active program to promote good corporate governance. Their recommendations are available on their Web site at: www.calpers-governance.org

- The Council of Institutional Investors developed a set of general principles of shareholder rights and board accountability, and a number of more general position statements on various corporate governance issues, available online at: www.cii.org/corp_governance.htm

***Challenge: Instituting Corporate Governance in the Public Sector***
***Resources:***

- The Standing Conference of Public Enterprises (SCOPE), New Delhi, commissioned Yaga Consulting, Pvt. Ltd., to do a study on corporate governance in the public sector yielding "The First Principles of Corporate Governance for Public Enterprises in India." For copies email: yaga@hd1.vsnl.net.in

- The Private Sector Corporate Governance Trust held a National Workshop on Good Corporate Governance in Public and State Corporations in Nairobi, Kenya in February 2002. For more information, see: www.corporategovernance.co.ke

***Challenge: Instituting Corporate Governance Regionally***
***Resources:***

- The OECD and the World Bank are cooperating to host a series of regional roundtables on corporate governance to assist decision-makers from the private and public sectors in their efforts to improve corporate governance. Before each roundtable, background documentation will be made public and disseminated. After each roundtable, a white paper for each region that identifies key areas for improvement and formulates a reform agenda will be produced. These materials are available online at: www.oecd.org

- CIPE supports local efforts worldwide to promote corporate governance. For information about these programs see: www.cipe.org

***Challenge: Mobilizing the International Community to Promote Corporate Governance***
***Resources:***

- Two of the international organizations actively engaged in promoting corporate governance worldwide include the OECD and the World Bank. Their cooperation is structured in two key initiatives:
  - a Global Corporate Governance Forum, www.gcgf.org and
  - a series of regional policy dialogue roundtables mentioned immediately above and described on the OECD's Web site, www.oecd.org or on the World Bank's Web site: www.worldbank.org/html/fpd/privatesector/cg/

Other important initiatives include:

- The World Council for CG http://www.wcfcg.net/ and

- The European Corporate Governance Network http://www.ecgi.org/