CIPE

Development Institute

LESSON PLAN

Corporate Governance in Emerging Markets

***Prerequisite**: CIPE Development Institute video presentation by Dr. Jesus Estanislao*

I. Message

The debate concerning corporate governance in developing countries often focuses on whether global principles of corporate governance, formulated in Europe and influenced by the United States, could and should apply to other parts of the world. As the evidence shows, there really is no geographic difference when it comes to these principles: their applicability is universal. Transparency, accountability, fairness, and responsibility – these are the principles that businesses everywhere, and especially in emerging markets, must heed in order to prosper and grow sustainably. The challenge is to increase awareness of the need for good corporate governance among policymakers and enterprises worldwide so that their respective countries can benefit from well-governed economies and better business environment.

II. Objectives

1. Explain the concept of corporate governance.
2. Distinguish between the roles of the board of directors and management.
3. Explore the difference between shareholders and stakeholders.
4. Understand the importance of corporate governance in developing countries.
5. Discuss the principles of corporate governance and ways of applying them.

III. Discussion questions

- What does corporate governance mean? What principles underlie it?
- Why do companies – and societies – need clear rules of governance?
- How is corporate governance perceived in developing countries today?
- How can governance in enterprises be improved?
- Is there a connection between good corporate governance and good governance in a country as a whole?

IV. Reading list

Required readings:

- Estanislao, Jesus P., "Governance Scorecards as Tools for Breakthrough Results," Global Corporate Governance Forum, *Private Sector Opinion*, Issue 8, Dec 2007, http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/Private_Sector_opinion8/$FILE/GCGF+PSO+issue+8+5-13-08.pdf.
- OECD Principles of Corporate Governance, 2004, http://www.oecd.org/DATAOECD/32/18/31557724.pdf.
- Shkolnikov, Aleksandr and Andrew Wilson, "From Sustainable Companies to Sustainable Economies: Corporate Governance as a Transformational Development Tool," CIPE Economic Reform Issue Paper, No. 0804, July 2008, http://www.cipe.org/publications/papers/pdf/IP0804.pdf.

Optional readings:

- Amojelar, Darwin G., "Estanislao: 65% of PSE-listed co's now on a par with HK, Thailand," *Manila Times*, 17 Feb 2008.
- Business Roundtable, "Principles of Corporate Governance," November 2005, http://www.businessroundtable.org/sites/default/files/CorporateGovPrinciples.pdf.
- Sullivan, John D., "Mobilizing Domestic Capital: Entrepreneurship and Corporate Governance," Remarks at the Review Session on Chapter I of the Monterrey Consensus "Mobilizing Domestic Financial Resources for Development,"14 February 2008, UN Headquarters, http://www.un.org/esa/ffd/doha/chapter1/Sullivan_FFD_UN_2-08.pdf.

V. Lesson plan

Defining corporate governance

- Basic definition: A system designed to improve internal company decision-making procedures and address agency problems arising from the separation of ownership and control in a corporation (holding managers accountable)
- Expanded definition: The structure of decision-making and guidelines for ethical behavior that help to improve governance internally and in the environment in which companies of all sizes and types (not just corporations) operate
  - *OECD Principles of Corporate Governance* as international standard

The structure of corporate governance

- Division of roles between board of directors and management
  - Management is responsible for day-to-day business operations
  - Board of directors oversees management performance on behalf of the shareholders who chose the directors
- The role and engagement of the shareholders and stakeholders
  - Shareholders delegate the conduct of business to the management and elect directors who represent them
  - Directors vote on key matters and are accountable to the shareholders

    - The company adopts accounting standards and follows legal requirements that generate the information necessary for directors, investors, and other stakeholders to make decisions

Key principles of corporate governance apply universally

- Transparency – timely and proactive disclosure of financial and other relevant information to shareholders
- Accountability – owners (shareholders) entrust the managers with running the company and hold them accountable
- Fairness – equitable treatment of minority shareholders, employees, managers, and other stakeholders
- Responsibility – the integrity of business operations engendering trust of markets and citizens; internal responsibility: owners-managers-employees; external responsibility: business-society-environment

Raising awareness of the need for good corporate governance

- Educating business leaders, policymakers, and the society
- Training corporate directors on corporate governance
- Creating competent audit, corporate governance, and risk management committees in every board

Corporate governance and improved business performance

- Ways to measure and improve corporate governance
    - Checklists detail basic requirements to fulfill
    - Scorecards track and evaluate company progress
    - Business groups and forums share best practices and lessons learned
- Companies must deliver good results not only to the shareholders, but also to all the stakeholders: community and society as a whole
    - In order to deliver, companies need to make good corporate governance and integral part of their business strategy, along with corporate ethics and social responsibility

Progress of corporate governance in emerging markets

- Many developing countries made strides in the first phases of corporate governance awareness, procedural box-ticking, and compliance
    - BUT the second, more difficult phase is to start using corporate governance as a tool for better business performance
- The practices of corporate governance may vary somewhat depending on local circumstances, but the basic principles remain the same

<u>VI. Sample test questions</u>

1. **Corporate governance is…**
    a. A framework for decision-making within a corporation
    b. A system that helps shareholders keep managers accountable
    c. A set of values that improve overall business environment
    d. All of the above

2. **The responsibilities of the board of directors include all except**
    a. Overseeing the performance of managers
    b. Running daily operations of a company
    c. Upholding ethical standards in a company
    d. Keeping shareholders informed

3. **Corporate governance scorecard is a tool for…**
    a. Measuring a company's governance performance
    b. Mitigating risk in business decisions
    c. Ensuring proper standards of transparency and accountability
    d. All of the above

4. **Corporate governance principles of transparency, accountability, fairness, and responsibility are…**
    a. Context specific – each country is different and these principles should apply only to Western corporations
    b. Universal – while the details of their application may differ, the principles themselves are the same no matter where they are being used

5. **Good governance in private and public sectors are…**
    a. Independent – corporate governance is an issue of individual companies and has no impact on how the public sector and the government functions
    b. Interdependent – good corporate governance requires and reinforces transparency and accountability in a country's economy and public governance structures