

REFORM Toolkit

August 2008

Corporate Governance for Emerging Markets

Corporate governance has become an essential tool for improving corporate performance and advancing the development of market-oriented democracies. Good governance practices maintain the integrity of business transactions and in so doing strengthen the rule of law and democratic governance. A powerful antidote to corruption, corporate governance clarifies private rights and public interests, preventing abuses of both.

This toolkit introduces key concepts in corporate governance, provides a framework for applying corporate governance principles to emerging markets situations, and outlines the four-step strategy developed by the Center for International Private Enterprise for corporate governance reform. The toolkit includes:

- Benefits of corporate governance
- Basic principles
- Internal and external aspects of firm governance
- CIPE's four-step strategy for corporate governance
- Five examples of actual reform programs



published by the

Center for International Private Enterprise

an affiliate of the U.S. Chamber of Commerce

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The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.



The National Endowment for Democracy (NED) is a private, non-profit organization created in 1983 to strengthen democratic institutions around the world through nongovernmental efforts. The Endowment is governed by an independent, nonpartisan board of directors. With its annual congressional appropriation, it makes hundreds of grants each year to support prodemocracy groups in Africa, Asia, Central and Eastern Europe, Latin America, the Middle East, and the former Soviet Union.



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The activities described in this toolkit were funded by the National Endowment for Democracy and the United States Agency for International Development

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I. Why Does Corporate Governance Matter?

The modern business corporation is one of the world's most powerful means for creating wealth and prosperity. Corporations were invented for the benefit of society, but to fulfill that role and serve society, they must be well governed. They must have responsible internal leadership and operate within competitive markets under sound public governance.

Corporate governance infuses the democratic values of fairness, accountability, responsibility, and transparency into corporations. It maintains the integrity of business transactions and in so doing strengthens the rule of law and democratic governance. A powerful antidote to corruption, corporate governance clarifies private rights and public interests, preventing abuses of both.

At its core, corporate governance structures the relationships among investors, boards of directors, managers, and other stakeholders. Its goal is to maximize long-term shareholder value by improving corporate decision-making and performance. This involves establishing incentives and procedures that serve the interests of shareholders while respecting the interests of other stakeholders in the corporation.

As developing countries begin to compete in global markets and translate their growth into more mature, sustainable economies, they must put in place rules and principles that stabilize markets and support entrepreneurial

innovation. Corporate governance has become a major issue in development, since it relates directly to the establishment of long-term productivity and sustained growth. The future of emerging markets depends on improving governance within and around corporations.

Results from CIPE's Corporate Governance Programs

Egypt

CIPE, in a consultative process with Egyptian Minister of Finance Youssef Boutros Ghali, the Arab Linguistics Council, and other public and private sector stakeholders, coined and promoted the Arabic term for "corporate governance" – *hawkamat ash-sharikat* – used in the first national corporate governance code in the world to be written in Arabic.

Global

To develop its Principles of Corporate Governance, the OECD held regional roundtables for gathering input from its organizational and private sector partners. CIPE helped form the revised 2004 principles, which recognize transparent markets and rule of law as foundations for corporate governance.

Zambia

With CIPE support, the Institute of Directors Zambia developed a corporate governance code for small and medium-sized enterprises, which was endorsed by the Lusaka Stock Exchange.

Philippines

The Institute of Corporate Directors created a corporate governance scoring system with support from CIPE. Use of the scorecard system is now required for companies listing on the Philippine Stock Exchange.

Russia

Founded with CIPE support, the Russian Institute of Directors helped eight major companies develop governance codes and helped draft Russia's national corporate governance code.

Macedonia

The Akcioner Shareholders Association, Macedonia, with CIPE support, provided legal aid to more than 2,000 small shareholders and had a direct role in court cases that ruled in favor of shareholders for the first time in Macedonian history.

Colombia

CIPE partner the Colombian Confederation of Chambers of Commerce advised Ecopetrol, a state-owned petroleum company, on how to structure a strong corporate governance code and implement good governance practices.

II. How Did Corporate Governance Become So Important?

In some ways, corporate governance issues have been around for centuries. So long as companies have sought to borrow or raise capital to finance their growth, creditors and investors have sought assurances that they will receive a decent return on their investment.

Governance issues rose in importance in the 1990s as competition for finance among businesses increased following the deregulation of markets and the liberalization of international trade and investment. A wave of privatization, especially in newly formed democratic countries, magnified attention to governance issues. In too many cases, poorly managed, corrupt privatization processes harmed new investors and undercut the value of privatized companies. The world also witnessed a number of spectacular failures in the governance of individual companies and entire financial markets. Pressure for change was accelerated by the growing power of institutional investors, especially pension funds, which had the interest and opportunity to influence governance.

The key questions of corporate governance, however, are not linked to any particular trend or event; they are more enduring. For companies to grow and economies to develop, the efficient use of resources must be encouraged. Investors must be given the confidence to commit their funds to private enterprises, and, in turn, must spur managers to deliver higher performance. Managers and company insiders must be supervised to ensure that they do not abuse power for private reasons, do not strip company assets, and seek the long-term best interest of the company and its shareholders. Companies must operate as responsible market participants that deliver value to communities.

III. Who Benefits from Corporate Governance?

A well-run corporation generates value for investors and lenders as well as for its employees,

customers, and society as a whole. Good corporate governance contributes to a healthy business climate that encourages domestic and foreign investment, in turn creating jobs and increasing the welfare of a country's citizens.

Companies

Well-governed companies perform better. Companies that institute good governance practices expect to lower their cost of capital and can attract a wider range of investors, many with a longer-term view of investments. Their management can be expected to improve in areas such as setting company strategy, ensuring that mergers and acquisitions are undertaken for sound business reasons, and matching compensation systems to performance. Of crucial importance is a company's ability to reduce its exposure to various risks, including its exposure to legal action. By acting responsibly and fairly, a company can also build fruitful, long-term relationships with its stakeholders, including creditors, employees, customers, suppliers, and local communities.

Investors/shareholders

Investors recognize the potential for higher returns from well-run companies and are willing to pay a premium for these returns. They also value the certainty that they will not lose their investment due to greedy, careless, and unaccountable managers or cronies. Good governance protects the rights of investors, especially minority investors, including their rights to have a say in company management and major transactions and the right to be informed about their investment. By building efficiency and trust in capital markets, it provides investors with greater liquidity, so they can diversify and sell their assets when they need to. Finally, procedures for dealing with business failures protect creditors and limit the liability of shareholders.

Stakeholders and society

Good governance calls upon companies to respect their obligations to employees, customers, creditors, suppliers, and communities. These groups benefit from honesty, quality, and reliability in their dealings with companies. Society as a whole reaps the benefits of well-run corporations as they create jobs, build confidence in the economy, and prevent waste.

Major economic benefits to society include the prevention of systemic banking crises and the development of larger, more liquid capital markets. Countries with responsible business practices and respect for private property can attract greater foreign investment. The productivity gains and innovation that result from fair competition can stimulate entirely new areas of economic growth.

In the political domain, the shift to better private governance accelerates the move toward more democratic public governance. Corruption, for instance, withers in a transparent environment, since it is much more difficult to conceal bribes when companies keep proper books and directors exercise good judgment. Corporate governance is fundamental to changing the relationship between business and the state in many emerging markets. By injecting transparency into the relationship, corporate governance helps to remove cronyism and favoritism, instead facilitating an open exchange between the private sector and the government.

IV. What Are the Basic Principles?

An effective corporate governance system relies on a combination of internal and external discipline to maximize corporate performance, minimize risk, and protect the interests of investors and stakeholders. The Organisation for Economic Co-Operation and

Development (OECD) has laid out a set of basic principles that should guide the functioning of corporate governance systems in almost every country. Below is a brief listing of the 2004 OECD Principles of Corporate Governance:

1. Basis for an effective corporate governance framework

This first principle sets the important context for the other principles.

- Transparent and efficient markets
- Rule of law
- Clear division of responsibilities among authorities

2. Rights of shareholders

- Secure ownership
- Information
- Participation
- Voting
- Share of profits

3. Equitable treatment of shareholders

- Equal voting rights
- Protection of minority and foreign shareholders
- No insider trading or self-dealing

Benefits of Corporate Governance

Benefits to Society

- Encourages investment and sustainable growth
- Fights corruption
- Promotes competitiveness
- Stimulates productivity and innovation
- Promotes efficiency and reduces waste
- Stabilizes financial markets
- Develops capital markets
- Fosters transparent relations between business and the state
- Supports public confidence in the market system

Benefits to Companies and Investors

- Enhances company performance
- Lowers cost of capital
- Strengthens company reputation
- Improves strategy
- Builds stakeholder relationships
- Grows and preserves shareholder value
- Protects investors' rights
- Mitigates risk
- Increases liquidity

4. *Role of stakeholders*

- Respect for legal rights and agreements
- Co-operation between corporations and stakeholders
- Access to information
- Communication and redress for violations

5. *Disclosure and transparency*

- Timely and accurate disclosure of material information
- Disclosure of financial situation, performance, ownership, governance
- Accounting standards
- Audits of financial statements

6. *Responsibilities of the Board*

- Strategic guidance
- Monitoring of management
- Accountability to the company and shareholders
- Duty of care
- Duty of loyalty

When the OECD principles were first adopted in 1999, they were primarily intended to address the problem of separate ownership and control within corporations, that is, to ensure that management could be held accountable to shareholders. By the time the principles were revised in 2004 with input from non-OECD private sector representatives, the OECD had recognized two additional concerns of special importance to emerging markets:

Institutional framework for markets

While successful markets are founded on freedom of ownership and exchange, to function, they also require appropriate regulations and enforcement. Without market institutions, business becomes nothing but “casino capitalism” where investments are simply bets: bets that people will keep their word, bets that firms are telling the truth, bets that employees will be paid, and bets that debts will be honored.

Protection of minority shareholders

Majority owners often have effective control over managers, yet exercise this control for their private benefit while harming the company and minority owners. They may abuse minority shareholders by using pyramid structures, related-party transactions, or other means. These conflicts of interest must be resolved to attract new investors and allow sustainable growth.

V. The Institutional Framework for Governance

In order to maintain a healthy, competitive governance environment in emerging markets, certain institutional prerequisites of a market economy must be put in place. Advocates for good corporate governance should highlight the need for the following institutional reforms:

Property rights and contract law

A strong system of private property rights must clearly define who owns what and how property may be exchanged. Owners should be protected from expropriation without due process. Laws should establish the legal identity of corporations and allow the establishment of joint stock companies with limited liability of owners. Laws must also guarantee the sanctity of contracts.

Independent judicial system and rule of law

A strong, independent, and transparent judicial system is key to enforcing rules and resolving conflicts. Courts should resolve disputes consistently, fairly, and swiftly. The rule of law requires that the government serves the public interest and not just private interests. Citizens must have equal protection under the law and government must not be above the law.

Freedom of entry

Markets should be competitive and open to new entrants. Barriers to entry should be removed, including administrative barriers and official monopolies. Anti-trust laws should be enacted and enforced. Preferential treatment in the form of subsidies, quotas, and tax breaks should be eliminated.

Reformed government agencies and regulatory structures

Civil servants should be professional, capable, and of high integrity. Regulators should be bound by clear rules on conflict of interest and have well-defined limits to their authority. Regulation should be simplified by the elimination of excessive or conflicting laws and rules.

Freedom of information

Governments should be transparent about their policies and should not restrict the flow of economic information. Businesses, the media, civil society organizations, and citizens should be able to express their opinions and share information freely.

VI. Internal Governance of Firms

Internal governance refers to arrangements within a corporation that define the relationships between shareholders, boards of directors, managers, and stakeholders, along with their respective rights, roles, and responsibilities. The following are some key areas of internal firm governance:

Internal Governance: The Basic Model

Good internal governance is designed to solve problems created by the separation of ownership (shareholders) from control (management) in a joint-stock corporation. The model aims to ensure that the company is managed in the best interests of shareholders.

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.

Board of directors

Directors have two overarching duties. The duty of care requires directors to be informed, act with reasonable care, and monitor company risks. The duty of loyalty requires that directors act in the interests of the company and all its shareholders, and avoid conflicts of interest.

The board of directors selects the company's executive leadership, monitors the executive's performance, and compensates the executive in line with performance. The board holds the executive accountable, and in turn the board is held accountable to shareholders. Other key roles include oversight of company strategy, ensuring compliance with laws, and supervising the audit of financial statements.

It is now widely agreed that all boards should have a number of directors who are otherwise independent of the company and its management. All directors should actively participate in the governance of the company.

Shareholders' rights

In accordance with the OECD principles, companies in emerging markets should take measures to ensure minority shareholders' rights are protected. Shareholders should be guaranteed access to information and participation in decision-making, including annual shareholders' meetings and the election of directors. A company must be vigilant about preventing conflicts of interest, self-dealing, and insider trading. Its ownership structures and related party transactions should be fully disclosed. These measures provide assurances to investors and permit minority investors to play a valuable oversight role.

Reporting and internal controls

The board and management must establish systems for accurate reporting, as well as internal controls that mitigate risk, secure compliance with laws, and provide confidence in financial and nonfinancial reports. A company must have transparent accounting standards, bolstered by internal and external audits of financial statements. Company leaders should also promote and observe strong ethical standards.

VII. External Governance of Firms

A well-run corporation cannot thrive and attract additional investment if external governance is lacking. To be effective, internal governance measures must be reinforced by an external system of markets and institutions. These external forces promote efficiency, set standards, punish violations, and encourage the flow of information.

Factor and Product Markets

Competitive markets stimulate corporate performance and ensure that companies allocate resources efficiently. These markets force companies to be efficient and productive or else lose their market share. Market competition not only lowers the cost of goods and services, it also encourages innovation and entrepreneurship as companies aim to deliver the best choices to their customers. Open markets backed by strong external institutions provide a level playing field for all.

Securities markets

Efficient securities markets transmit current price information to investors and allow them to liquidate investments easily. These markets discipline managers and facilitate access to capital for well-run companies. A well-functioning securities market requires:

- Laws governing how securities are issued and traded, stating the responsibilities of securities issuers and market intermediaries;
- Stock exchange listing requirements based on transparency and strict disclosure;
- Laws protecting minority shareholders' rights; and
- An independent securities commission empowered to regulate transactions and enforce securities laws.

Take-over markets

Markets for corporate control discipline insiders, who must either improve firm performance or risk losing control. If a firm underperforms, take-over markets allow new owners to improve management and create additional value for shareholders. These markets should be orderly and transparent to facilitate fair, economically justifiable mergers and acquisitions.

Exit mechanisms (bankruptcy laws)

Bankruptcy is a fact of life for many businesses. Good bankruptcy laws and regulations treat creditors and stakeholders fairly while providing a relatively smooth exit. By requiring rigorous disclosure of liabilities and expediting bankruptcy proceedings, they help reallocate remaining resources into more productive ventures.

Reputational agents

Reputational agents include the media, credit rating agencies, auditors, lawyers, and professional associations. These groups reduce the information gap between corporate insiders and outside investors. They play important roles in monitoring companies, informing investors, and setting professional standards. Reputational agents should be active and well informed.

Banking sector

A well-regulated banking system is especially important in developing economies, where most of the external financing for corporations comes from banks. Mechanisms are needed to ensure that banks manage capital responsibly and efficiently, and remain financially viable. These mechanisms include minimum capital requirements and requirements for banks to disclose their risks and relationships.

Privatization procedures

Poorly handled privatization processes have had devastating effects on young market economies, resulting in corruption, the stripping of company assets, and disrespect for private ownership. It is essential to have transparent, fair, and open privatization processes supported by strong enforcement mechanisms.

VIII. Forms of Ownership

There is no single best model of ownership for good corporate governance. Developed and emerging markets exhibit a wide variety of models, each with their advantages and disadvantages. Of course, the values, principles, and best practices of corporate governance should be taken seriously and widely applied. However, their application should always be

grounded in an understanding of local governance practices and conditions.

Concentrated ownership

A small number of insiders control the company in this model. Insiders have the power and the incentive to monitor management closely, thereby minimizing the possibility for mismanagement and neglect of their interests. Moreover, insiders tend to hold their investment for a long time and therefore support decisions that enhance long-term performance.

Unfortunately, in some cases insiders expropriate firm assets at the expense of minority shareholders. Managers, too, if they are large shareholders, may influence board decisions to benefit themselves at the company's expense. These instances of bad governance discourage further investment, reduce liquidity, undermine performance, and inhibit development.

Dispersed ownership

Here, a large number of owners each hold a small number of company shares. Shareholders rely on independent board members to disclose information, objectively assess managerial performance, and vigorously protect shareholders' rights. Such a system of active independent directors fosters accountability and liquidity in capital markets.

On the other hand, small shareholders have little incentive to closely monitor management and directors and tend not to be deeply involved in decision-making. They often are more interested in short-term profit maximization.

Family-owned firms

In some countries, family businesses account for as much as 90 percent of all businesses and are important contributors to economic growth. Although they do not face the classic governance problem of holding management accountable, they face their own set of challenges. They must handle questions of succession, resolve family disputes, and maintain professionalism. They must also respect the rights of minority shareholders.

Family-owned firms greatly benefit from instituting good governance practices. Corporate governance helps them improve decision-making processes and management systems while getting the most out of family members and outside talent. They can lower their cost of capital, increase the liquidity of family holdings, and manage risk. Bringing clarity to family roles within the business serves the interests of both the family and the company.

State-owned enterprises (SOEs)

State-owned enterprises still account for a large portion of GDP in many economies. The state is the owner of these enterprises, but ultimately it is the public whose assets are invested. Good governance in the SOE sector, as in the private sector, improves corporate performance at the same time as improving the management of public funds and the delivery of essential public services.

Corporate governance in this sector focuses on establishing clear lines of accountability, improving board selection and quality, and developing sound strategies that reward efficiency and professionalism. By introducing accountability and transparency, governance reforms reduce corruption, self-dealing, and undue political influence. If plans are made to privatize an SOE, it is imperative to first observe good practice in restructuring and privatizing the corporation.

IX. CIPE's Strategy for Corporate Governance Reform

CIPE believes that the private sector must play a leading role in corporate governance reform at every level. Individual companies should adopt good practices, setting an example for their peers and competitors. Voluntary private sector associations can provide education and assistance, and in many cases establish standards for self-regulation. Finally, the private sector should participate and be consulted in the creation of government policies and rules that affect markets, companies, or investors.

The starting point and the goals of reform differ widely from country to country because the initial conditions matter. Simply grafting international best practices onto any country's institutional framework does not work. The incentives of managers, directors, and investors in the existing system should be assessed and then compared to how the incentives would look under any proposed reforms. It is important to keep in mind that corporate governance functions as a system, with inter-related components inside and outside the firm. The various components must support each other for the system as a whole to work.

A combination of rules and principles typically must be balanced against one another in devising a corporate governance regime. In general, principles provide flexibility while rules provide a basis for stronger enforcement. In either case, the costs of proposed reforms should be weighed against the expected benefits. Voluntary approaches developed by the private sector often serve well, but competitive markets do depend on at least some mandatory institutions. A rigorous disclosure regime is always beneficial.

CIPE's four-step approach guides the development of governance reform strategies. While there is a logic to the sequence, specific priorities of each strategy depend on the sector and country.

1. Initial Assessment

- Assess corporate governance failures, challenges, and opportunities
- Rate country standards versus international best practices
- Compare OECD principles and local realities

2. Outreach and Education

- Identify stakeholders
- Build awareness among business leaders, policymakers, and society
- Create broader public demand for reform

3. Develop and Institute Corporate Governance Mechanisms

- Develop corporate governance codes and internal control mechanisms
- Foster shareholder activism
- Improve regulatory and enforcement frameworks
- Create corporate governance networks including regulatory bodies, business leaders and organizations, and other civil society groups

4. Capacity-Building, Enforcement, and Follow-up

- Train and certify managers and directors
- Establish institutes of directors
- Create corporate governance ratings systems for investors
- Train financial intermediaries
- Promote broader legal and institutional enforcement systems

IX. Conclusion

There is a growing consensus among policymakers, business leaders, and the public that corporate governance is an essential tool for improving corporate performance and advancing the overall development of market-oriented democracies. The potential benefits from governance reforms in emerging markets are enormous. Establishing trusted markets with sound institutional foundations and introducing governance principles to all types of businesses will stimulate commerce, investment, and entrepreneurship. Corporate governance functions as a complete system, requiring an institutional foundation (rule of law, market institutions, and property rights), sound practices within firms, and external elements such as market pressures and appropriate regulatory supervision. For specialists in corporate governance and private sector professionals alike, these governance reforms are essential to strategies for improving the quality of business and democracy.

Partnership for Reform

Institute of Directors Zambia

- Assessed corporate governance practices
- Developed a corporate governance code for SMEs
- Educated members of parliament
- Led a public awareness campaign

The Institute of Directors Zambia (IODZ), a CIPE partner, is one of the leading organizations that have worked to institute and develop the concept of corporate governance in business practices in Zambia. IODZ strengthened corporate governance in the small and medium-sized enterprise (SME) sector, and educated the public and key decision-makers in the government about corporate governance.

Initially, IODZ conducted a survey of SMEs in Zambia to understand prevailing corporate governance practices to develop an SME sector corporate governance code. In 2007, in cooperation with members of the SME sector and corporate governance experts, IODZ developed a draft SME corporate governance code. Following the development of the code, IODZ organized a seminar to bring together public and private stakeholders to discuss and receive feedback on the SME draft code and to disseminate findings of the survey. The success of IODZ's efforts is underscored by the decision of the Lusaka Stock Exchange (LSE) to include compliance with the code as a condition for SMEs listing on the exchange.

Following the January 2007 elections, IODZ also held a seminar to train all 150 members of parliament on good governance principles and implementation. Press reports following the seminar indicate that the attendees have sought increased transparency and oversight in the appropriation of public sector funds.

IODZ also initiated a public awareness campaign that included eight radio programs, 13 articles in the press, and a seminar explaining corporate governance principles to the public. This campaign enhanced the knowledge and visibility of corporate governance issues among the Zambian people.

Partnership for Reform**Institute of Corporate Directors – Philippines**

- Designed a corporate governance scoring system
- Formed a partnership with the Philippine Stock Exchange

To improve standards of governance in publicly listed firms in the Philippines, the Institute of Corporate Directors (ICD) created a corporate governance scoring system and evaluated the governance practices of 128 Philippine corporations. The approach took the side of an ordinary investor, basing judgments on the information available to the public. In this way, ICD promoted the principle of disclosure and encouraged companies to share more.

Developed with support from CIPE, the scorecard helps companies determine where they are in their corporate governance practices relative to other companies in the Philippines, the region, and the world. Companies can assess their practices, identify areas for improvement, and develop a roadmap toward corporate best practice.

In 2007, ICD signed a memorandum of agreement with the Philippine Stock Exchange. The memorandum required all firms listed on the Philippine Stock Exchange to submit a corporate governance scorecard, designed by ICD, to the Securities and Exchange Commission. This partnership will provide regulators and listed companies with empirical data on the current condition of corporate governance in the Philippines as a basis for improving transparency and disclosure.

To fulfill this requirement, companies were first given an opportunity to do a self-assessment. Then a team of students from the Ateneo Law School, working under the auspices of ICD, validated the self-assessments by checking against publicly available documents. In January 2008, ICD ranked companies based on their scores and announced the results, giving recognition to the top five corporations.

Partnership for Reform

Russian Institute of Directors

- Founded the institute of directors
- Trained professional directors
- Encouraged and helped companies to adopt governance codes

The Institute for Stock Market and Management spearheaded the effort to establish an institute of directors to enhance corporate governance in Russia. The Russian Institute of Directors (RID) was established in 2001 as a non-profit organization to promote high professional standards and ethical norms among board members and develop a corps of trained, professional directors. Its membership now includes twenty of Russia's largest issuer companies. CIPE helped to found the institute and CIPE Executive Director John D. Sullivan served on RID's expert council.

RID developed a curriculum and texts for four training courses on corporate directors, corporate secretaries, shareholder general meetings, and how to make an effective board. With its curriculum, RID conducted educational programs for more than 250 enterprises in Russia and neighboring countries. Approximately half of the training participants became members of the National Register of Corporate Directors in Russia, developed by RID. RID also assisted eight major companies in developing corporate governance codes.

Experts from RID helped the Federal Commission for Securities Market in drafting Russia's national corporate governance code. The code has changed the landscape of doing business in Russia as there is now an accepted standard for all against which enterprises can be judged or held accountable. The commission now requires companies to disclose conformity with the code, using RID's methodology. Subsequently, the number of companies with outside directors has increased. A survey of company executives revealed that a majority of companies have a code or are drafting one.

Partnership for Reform**Akcioner Shareholders Association – Macedonia**

- Provided legal aid to shareholders
- Educated shareholders, managers, judges, and lawyers

Akcioner advanced the level of education and protection of over 11,000 minority shareholders. It substantially curbed managerial coercion of employees and promoted ownership of company stock based on understanding of ownership principles and a new Company Law. Akcioner's project with CIPE raised awareness of and respect for the rule of law, property ownership, transparent governance, and participatory processes.

The World Bank singled out Akcioner in its report of July 21, 2005 as the only institution in Macedonia fighting to protect shareholders and raise the level of dialogue on shareholders' rights. Akcioner participated in 71 court cases defending shareholders' rights and had a direct role in cases that ruled in favor of shareholders for the first time in Macedonian history. It established itself as a credible organization, receiving more than 2,000 requests from small shareholders for assistance and advice on their rights. Despite the government's pre-election campaign against independent NGOs and the hostile takeover of Akcioner's board of directors, Akcioner managed to reincorporate itself and boost its membership by 13.25 percent, up to 18,120.

Akcioner organized 17 seminars for shareholders and managers, and six seminars for judges and lawyers. As a result, shareholders are now more aware of their rights under the 2004 Company Law, and managers have been trained to be responsive and legally literate in regards to the law. Judges and lawyers learned how to enforce shareholders' rights under the law. Akcioner also coached its members on the importance of shareholder activism and involvement, efficient shareholder organization within a company, and effective implementation of collective advocacy campaigns.

Partnership for Reform**Colombian Confederation of
Chambers of Commerce (Confecámaras)**

- Advised a state-owned company on governance practices
- Advocated for capital markets legislation

Confecámaras advised Ecopetrol, a state-owned petroleum company, on how to structure a strong corporate governance code and implement good governance practices. This advice supported the Colombian Government's decision to privatize as much as 20 percent of Ecopetrol's capital. Ecopetrol received a "AAA" rating for its handling of the privatization. Confecámaras provided technical information on international corporate governance standards, facilitated the adaptation of these practices for companies that operate with state capital, identified the greatest governance risks for Ecopetrol, and helped educate staff, investors, and the public about the good governance practices that were instituted in the company.

Confecámaras achieved another major accomplishment with the passage of a new Capital Markets Law (Ley 964 de 2005), which included a chapter on corporate governance, "Investor Protection." Under this law, independent directors, audit committees, and practices strengthening shareholders' rights are now obligatory for Colombian issuers. The law prescribes voting mechanisms that permit minority shareholders to influence decisions. Furthermore, boards are obligated to respond in writing to any shareholder proposals put forth by a group representing 5 percent (or more) of the shares. This success in corporate governance reform can be in part attributed to two conferences organized by CIPE on the topic in Colombia. Attended by over 350 people, the conferences were followed by two special issues of *Perspectiva* magazine, which is distributed to more than 8,000 policymakers, business leaders, academics, and others in Colombia and around the region.

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