



TALKING POINTS FOR INTERNATIONAL CONFERENCE

John Sullivan, CIPE

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Remarks to focus on the environment for CG promotion and the evolution of thinking since the financial crisis of 2008.

Early Stages

Initial focus of CG promotion was a result of the 1998 financial crisis which shed a light on the importance of transparency and disclosure.

- Efforts focused on spreading the word about the importance of corporate governance
 - o In emerging markets the challenge was to develop the local concepts from scratch and then create the “market” for their acceptance by firms
 - o “demand” issue compounded by weak role of capital markets
 - o OECD principles, Cadbury Report and King Commission were drivers
 - o Defining models dominated initial debate (stakeholder vs. shareholder debate)
 - o Focus on benchmarking and codes
 - o “broad brush” approach to values
 - o Creating the vocabulary of CG (Egypt and Arabic word)
 - o Development of support/educational institutions

2004

Slow progress leads to 2004 OECD review

- Emphasis placed on importance of institutions and rule of law in enforcing values and standards
 - o Remains a challenge in many environments to this day
 - o Institutions can be created on paper, but the weak rule of law in emerging markets, especially where courts are poor and ADR is under-developed, undermines intent
 - o Case still made to companies based on attractiveness to investor (the CG-dividend especially in weak rule of law environments).

Pre-crisis

- Focus of CG was the development of standards and practices dealing with publicly listed firms arising out of the needs of privatization and capital market development
 - o Listing requirements
 - o Minority shareholder rights
 - o Quality of reporting
 - o Board make-up and role of independent directors

Post Crisis (2008)

- Local firms face greater external local and international pressure for improved standards.
- OECD commences second review of principles, affirms basic approach but changes stress to respond to the weaknesses identified, greater focus on role of board and committees
 - o Risk management – understanding complex financial instruments, improved internal controls, corruption prevention, board liability
 - o Executive Compensation
 - o Board member qualifications
- Move to examining other ownership structures which are prevalent in emerging markets
 - o Family-owned firms and the challenge of generational succession (in Pakistan 95% of family-owned firms fail to make it to 3rd generation)
 - o State-owned sectors – (accepting the notion that in many emerging markets the state-owned sector will continue to play an influential role in economic development) we need to look at depoliticization and professionalization of boards, increasing efficiency, ensuring competitive neutrality
 - o micro-finance institutions CG guidelines for Chambers of Commerce

Emerging Trends

- While the focus in recent years has been on internal board room reforms, continuing public pressure for accountability on Wall Street is driving the development of stronger external pressures,
- In emerging markets these pressures are likely to be felt indirectly through interactions with international capital and multi-national firms and their local partners
 - o Role of institutional investors – moving beyond shareholder activism and influencing board selection, executive compensation
 - o Role of rating agencies strengthened, but also increasingly questioned

