

# Annual Report 2008

**GCGF – EMERGING MARKETS CORPORATE GOVERNANCE  
RESEARCH NETWORK (EMCGN)**



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## GCGF — Emerging Markets Corporate Governance Research Network (EMCGN)

### BACKGROUND

Supported by the GCGF (Global Corporate Governance Forum) and kicked off by a network meeting at the World Bank in April 2002 with 50 participants, an informal research network has been evolved over the years focusing on corporate governance issues in transition, emerging and developing countries.<sup>1</sup> Under the leadership of Professor Stijn Claessens, the Network's activities have been largely supported by the GCGF as it has financed the organization of a number of global and regional meetings.<sup>2</sup>

In early 2007, Melsa Ararat, professor at Sabanci University, was appointed by the GCGF as the coordinator of the network with the support of Burcin Yurtoglu, professor at Vienna University. This has led to a reinvigoration of the network with the intention of institutionalizing the Network under the continued oversight of Professor Claessens. The idea of holding a biannual International Conference was supported by the Network and the key members became actively involved in the organization of the First International Conference on Corporate Governance in Emerging Markets. The conference which was held in November 16-19, 2007 attracted more than 100 researchers from 30 countries. The objective of the conference was to take stock of ongoing research on corporate governance in emerging markets and the expanding research in developing countries. Unique was the involvement of GCGF's Private Sector Advisory Group (PSAG) members as reflective practitioners which facilitated debate between scholars and practitioners. The event revitalized the Network.

Around the same time, a number of research papers have been commissioned, including a literature review of corporate governance research in emerging markets, as well as a number of other (case) studies of corporate governance.



Global  
Corporate  
Governance  
Forum

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<sup>1</sup> Claessens, S. 'Synthesis Report' on the Network Meeting, 2004, available at <http://www.gcgf.org/ifcext/cgf.nsf/Content/Research>

<sup>2</sup> Global meeting in April 2002 in Washington D.C.; Chile meeting in December 2002; South Africa meeting in January 2003; Korea meeting in May 2003; Hungary meeting in July 2003, India meeting in December 2003, and Turkey meeting in May 2004.

In the mean time, a concept paper was drafted to serve as a discussion document related with the mandate, regular activities and the basic working principles of the Network.<sup>3</sup> The idea of holding a biannual academic conference, with the organization of a workshop in the years between the conferences was supported by all the members.

## 2008 Activities

### REPORT ON THE 1. INTERNATIONAL CONFERENCE ON CG IN EMERGING MARKETS

The First International Conference was a milestone. More than 40 academic papers were presented and discussed and 4 keynote speeches were delivered. It attracted researchers from all key emerging markets and brought them together with internationally acknowledged senior members of the network. Unique was the involvement of GCGF's Private Sector Advisory Group (PSAG) members as reflective practitioners which facilitated a lively debate between scholars and practitioners.

The findings of the research papers presented at the Conference and the lessons drawn from them have been synthesized in a report written by Ararat, Claessens and Yurtoglu.<sup>4</sup> Besides the substance lessons, there are three lessons from the conference and the format that was followed.

- ▶ Networking among academics is very valuable to exchange methodology, data, and research experience. The large number of papers with authors belonging to different institutions in different countries and the lively discussions after academic and practitioner presentations confirm the importance of networking.
- ▶ Practitioners can add value as they can introduce real life perspectives and help guide research. The open discussion forum on boards was a good example of such an interaction. After Prof. Black's academic presentation on the issue of a causal link between board structures and firm performance, Paulina Beato gave examples from her professional life suggesting that the reason why most boards in emerging markets are not functioning well can be explained by the fact that they are not independent. This view is also supported by some of the participants of the forum, leading to discussions that range from how econometric methods capture such effects, to identifying the top priorities in corporate governance reform in emerging markets.

<sup>3</sup> Concept Paper available at <http://www.gcgf.org/ifcext/cgf.nsf/Content/Research>

<sup>4</sup> Conference report available at <http://www.gcgf.org/ifcext/cgf.nsf/Content/Research>

- ▶ There is a large leverage of key agents and sponsors. For many young scholars from emerging markets, the conference was a milestone in capturing the state of the art research and for joining the debate on corporate governance in emerging markets. The post-conference evaluations of the participants revealed that the conference was rated as ‘excellent’ in terms of not only contributing to our understanding of CG in emerging markets, but also in terms of encouraging collaboration between senior and junior researchers, and opening new research perspectives.

### COMMISSIONED RESEARCH

The Call for Research Proposals was issued at the same time as the Call for Papers for the Istanbul Conference. The objective of the call for research proposals was to encourage and support researchers from emerging markets institutions to undertake new research and offer them the opportunity to discuss their research with senior international researchers. Eight research projects had been selected from an initial list of 63 research proposals in May 2007 by the Scientific Committee consisting of senior scholars who have been active in the Emerging Markets Corporate Governance Research Network. In addition to these papers, a review of the empirical literature on corporate governance in emerging markets (EM) had been commissioned both to serve as background information for the workshop and to highlight future areas that should be particularly encouraged to address the research gaps and to better inform the agenda of the Global Corporate Governance Forum (GCGF). Following papers were selected and rewarded with a small grant depending on the financial support requirements:

- ▶ ‘What Makes Privatization Work? The Case of China’ by Prof. C. Xu.
- ▶ ‘Cross-shares, Broad Structure and Firm Performance in Emerging Markets’, by Prof. Carlos Pombo jointly written with R. Fortich and L. Gutierrez.
- ▶ ‘Developing Nations and Corporate Governance: The Story of Egypt’ by Prof. K. Dahawy jointly with A. Miller.
- ▶ ‘Delisting decisions of frontier emerging markets: an institutional profile of going to private transactions in Romania’, by Prof. D. Pop, jointly with A. Pop and G. Chemla.
- ▶ ‘Succession: The Roles of Specialized Assets and Transfer Costs’ by Prof. J. Fan.
- ▶ ‘Moral Hazard, Corporate Governance, and Bank Failure: Evidence from the 2000-2001 Turkish Crisis’, by Prof. C. Yıldırım.
- ▶ ‘Corporate Governance and Growth: A Managerial Perspective’, by Prof. H. Orbay.

## WORKSHOP HOSTED BY YALE UNIVERSITY MCCGP

The workshop hosted by Yale University, Millstein Centre of Corporate Governance and Performance was successful in achieving the following objectives:

- ▶ To identify and support neglected areas of research in CG in EM,
- ▶ To match young emerging market researchers with experienced scholars in the form of a mentoring scheme, which serves as a tool to enhance the quality of research,
- ▶ To bring emerging market researchers and practitioners together. This serves as a platform to discuss (i) academic research, (ii) its' implications for policy, and (iii) the neglected areas of research from the practitioners' perspective. As open discussions during the workshop have shown, this is a particularly valuable platform, hard to realize in a purely academic or practice oriented conference.

## REPORT ON THE YALE WORKSHOP

The workshop report written by Claessens, Ararat and Yurtoglu summarizes the research findings and their implications for practice.<sup>5</sup> The workshop has concluded with a session on “Agenda for Emerging Markets CG Research” which included three practitioners: Janet Holmes (Vice President-Regulatory Affairs, Moody’s Investors Service), Simon Wong (Head of Corporate Governance, Barclays Global Investors) and S.D. Shibulal (Co-founder & Member of the Board, Infosys Technologies Limited; Member, Global Corporate Governance Forum’s Private Sector Advisory Group) and Stijn Claessens who reflected the view of academicians. The panel pointed out the need to pay more attention to the results of scientific research and in understanding what matters in corporate governance and the need for the regulators to use the results of the scientific research more.

## PREPARATIONS FOR THE 2ND INTERNATIONAL CONFERENCE ON CG IN EMERGING MARKETS

The preparations for the second conference on CG in emerging markets, which will be held in Brazil has been under way in 2008. Fundacao Getulio Vargas School of Law in Sao Paulo and the Coppead Graduate School of Business have volunteered as the hosts of the conference whereas the founding research centres, namely the Millstein Centre for Corporate Governance and Performance at Yale University (MCCGP), the Brazilian Institute of Corporate Governance (IBGC), the Asian Institute of Corporate Governance (AICG) affiliated with Korea University, Centre for Enterprise Governance of Chile, and Sabancı University’s Corporate Governance Forum of Turkey (SU-CGFT) have extended

<sup>5</sup> Report available at <http://www.gcgf.org/ifcext/cgf.nsf/Content/Research>

their active support. The International Corporate Governance Network (ICGN)<sup>5</sup> has also endorsed the conference. The call invites papers on the following topics; (1) Dynamic aspects of ownership and control structures, (2) Inside the Emerging Market Companies, (3) The role of external and voluntary mechanisms of governance, (4) The role of stakeholders in emerging markets and sustainable development, (5) Corporate governance and enforcement mechanisms in emerging markets.