

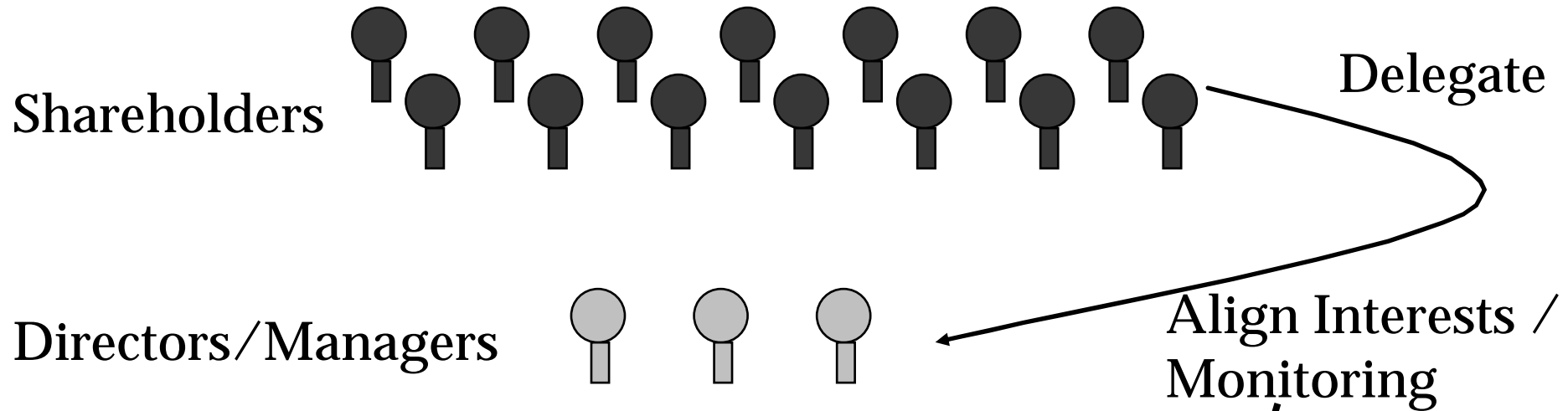
The Importance of Corporate Governance of Non-Listed Companies in Emerging and Transition Economies

The Role of the Law in Developing Efficient Corporate Governance Frameworks

*OECD International Meeting on Corporate Governance of Non-Listed Companies
19 – 20 April 2005*

Dr. Erik P.M. Vermeulen

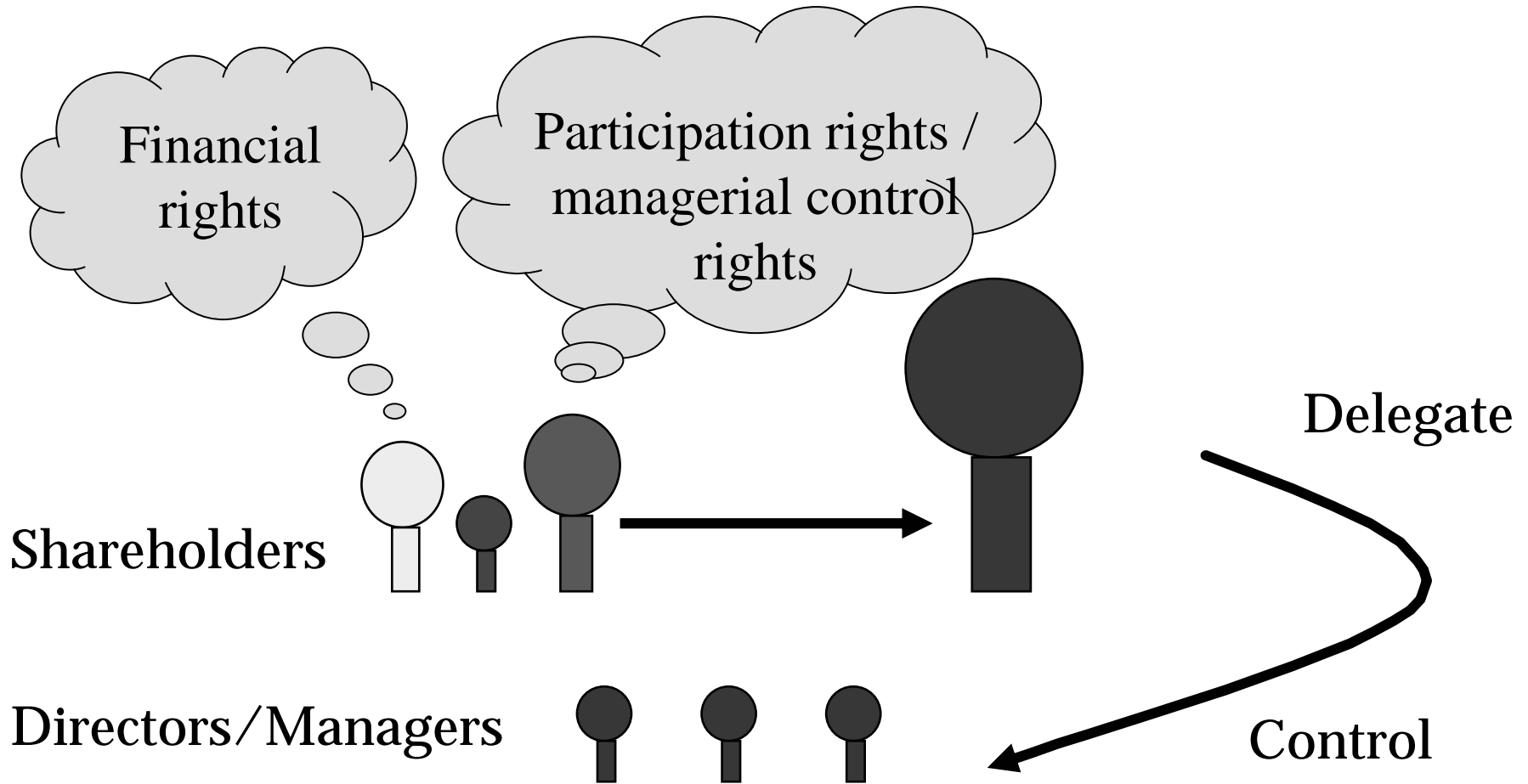
Corporate Governance Debate: Publicly Held Company



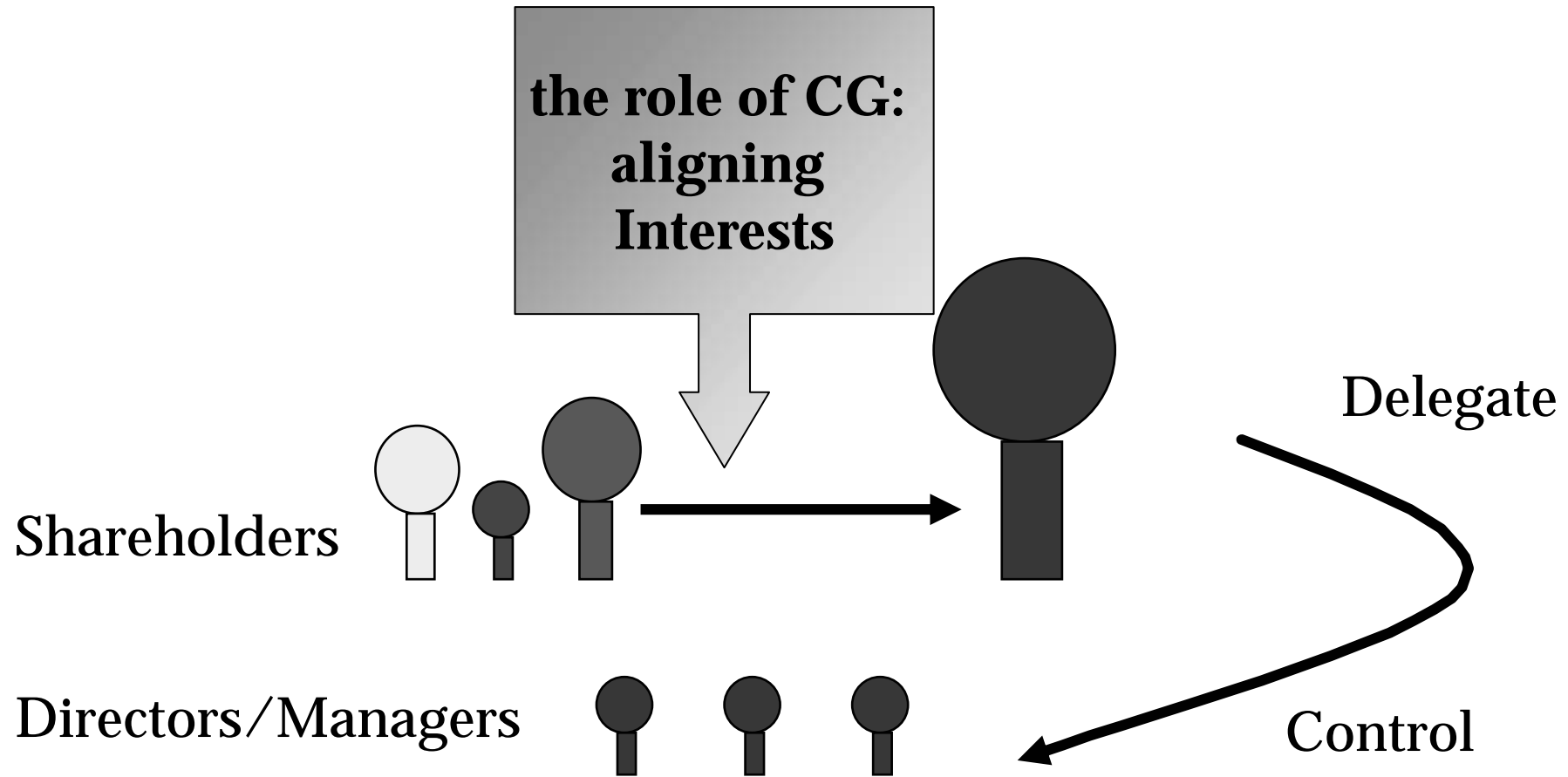
Internal Corporate Governance Mechanisms:

- Non-executive managers
- Fiduciary duties: Duty of care / Duty of loyalty
- Executive pay
- Disclosure and Transparency
- Internal and external audit process

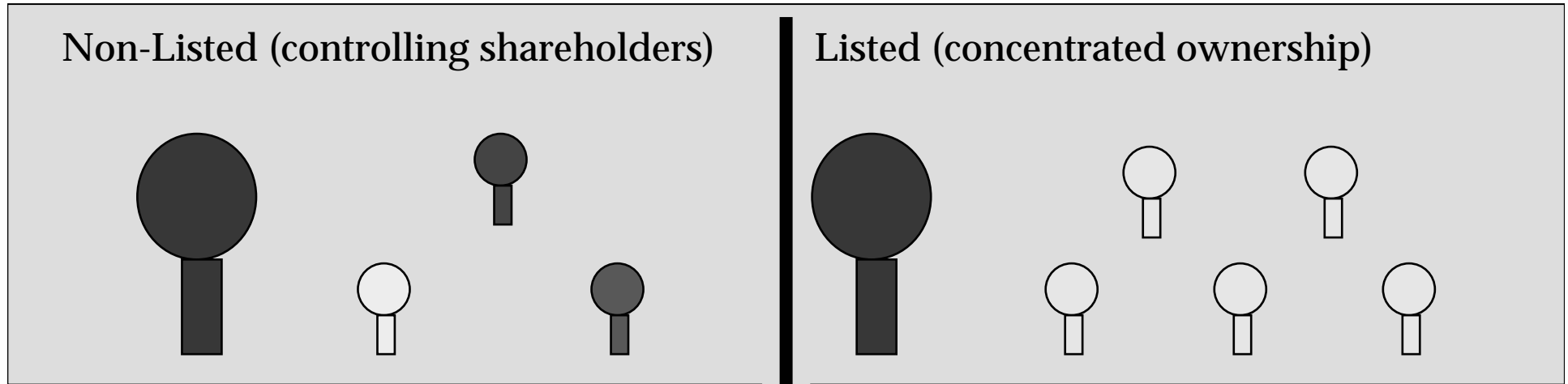
Corporate Governance Debate: *Non-Listed* Closely Held Company



Corporate Governance Debate: *Non-Listed Closely Held Company*



Corporate Governance Debate: Emerging and Transition Markets

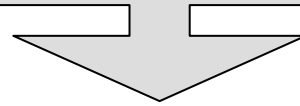


Closely held listed companies and closely held non-listed companies share the same type of governance problems

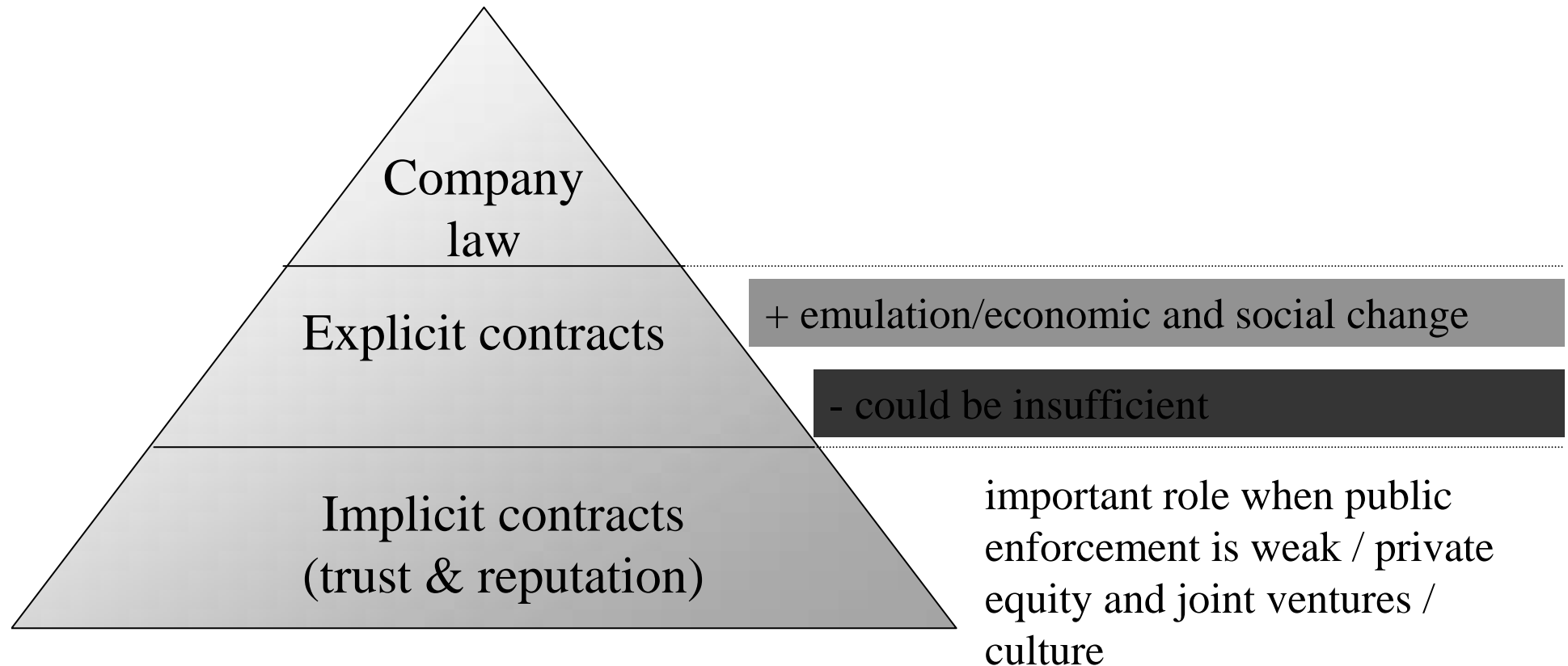
Similar corporate governance techniques and strategies?

Corporate Governance Debate: Emerging and Transition Markets

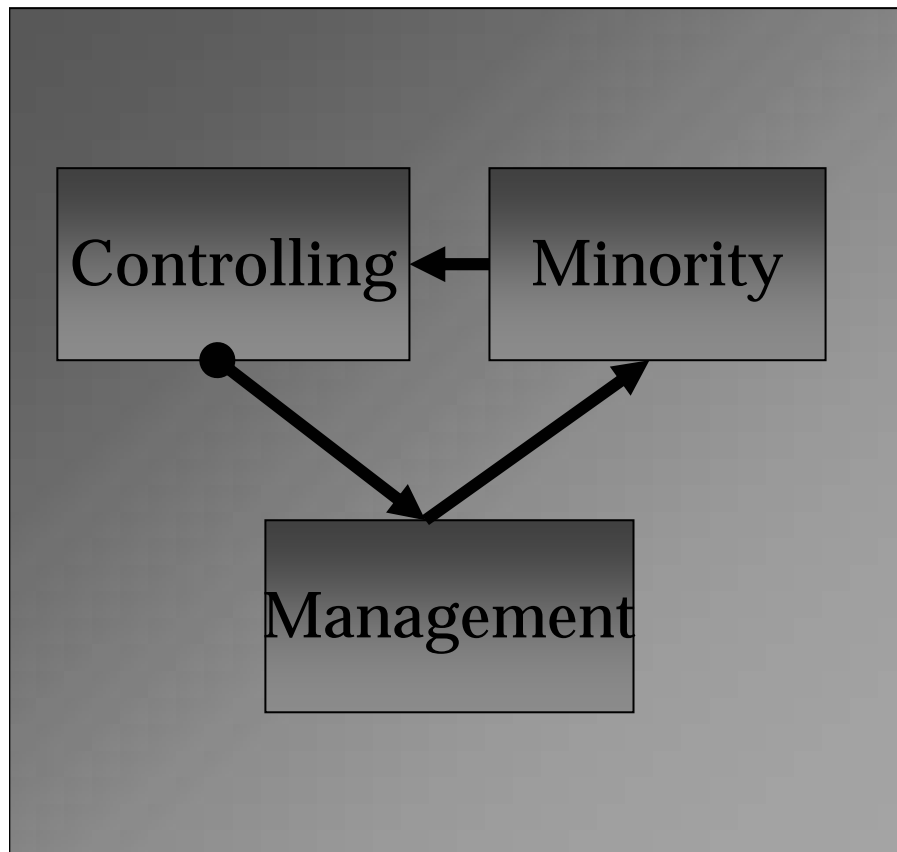
“One-size-fits-all” does not work



- No market for shares in non-listed companies
- Soft law (CG codes, standards, principles) approach requires “reputational agents” and experienced judiciary in the area of non-listed firms
- Prevents spillover benefits of foreign direct investment (emulation)
- Minority shareholders do not only have financial interests
- High compliance costs

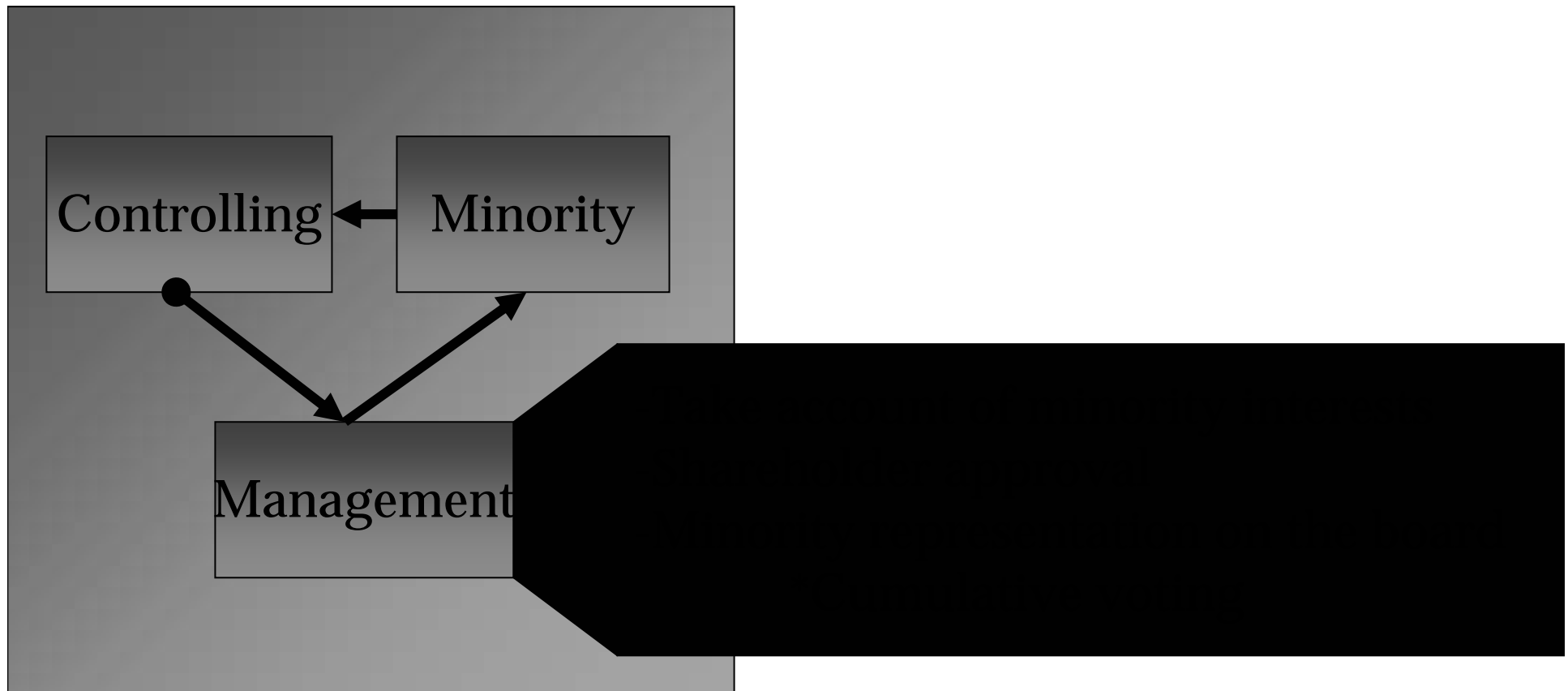


Private Company Law



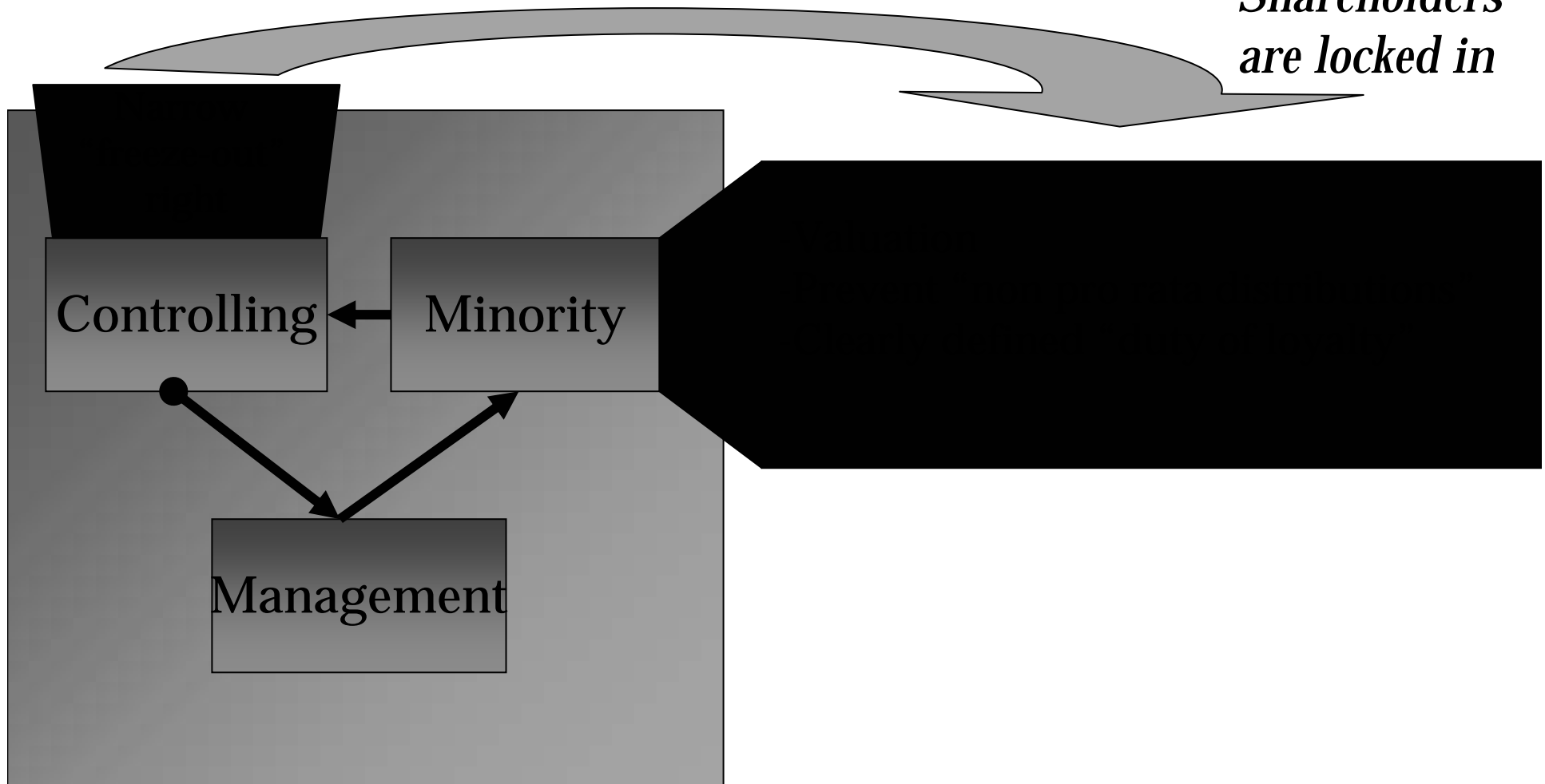
- Board and Management
- Exit rules
- Fiduciary duties
- Information rights
- Enforcement

Company Law: *Board and management*

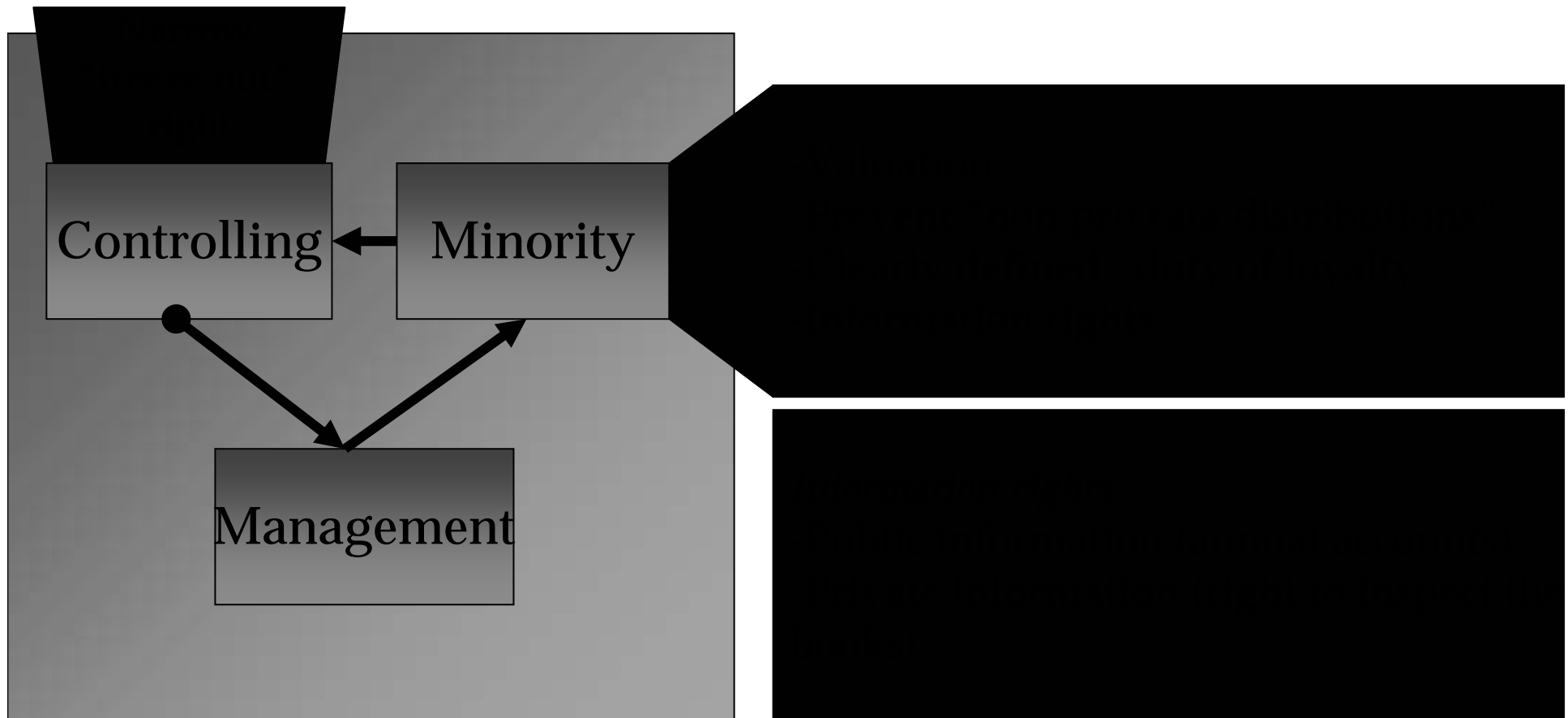


Company Law: *Shareholders' rights* (*exit rules and fiduciary duties*)

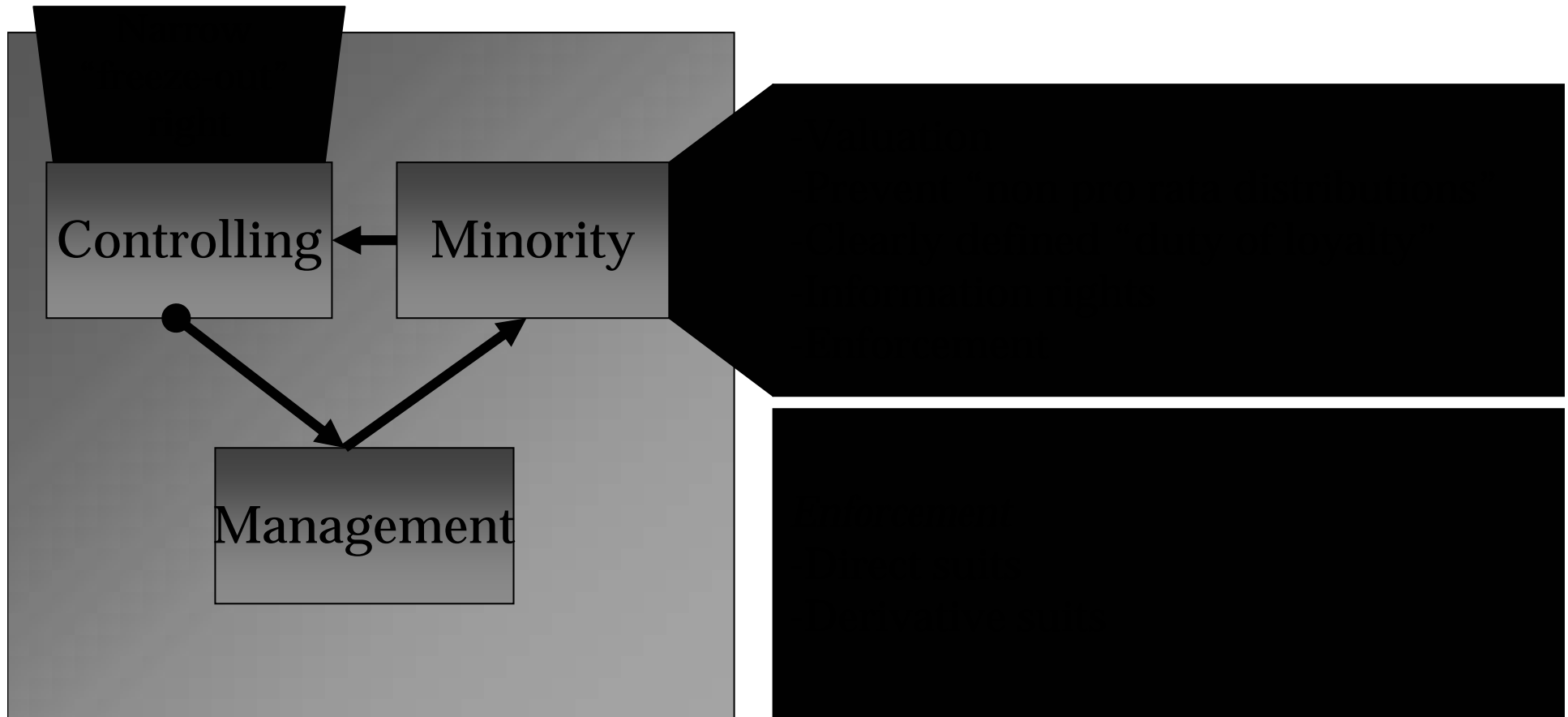
*Shareholders
are locked in*



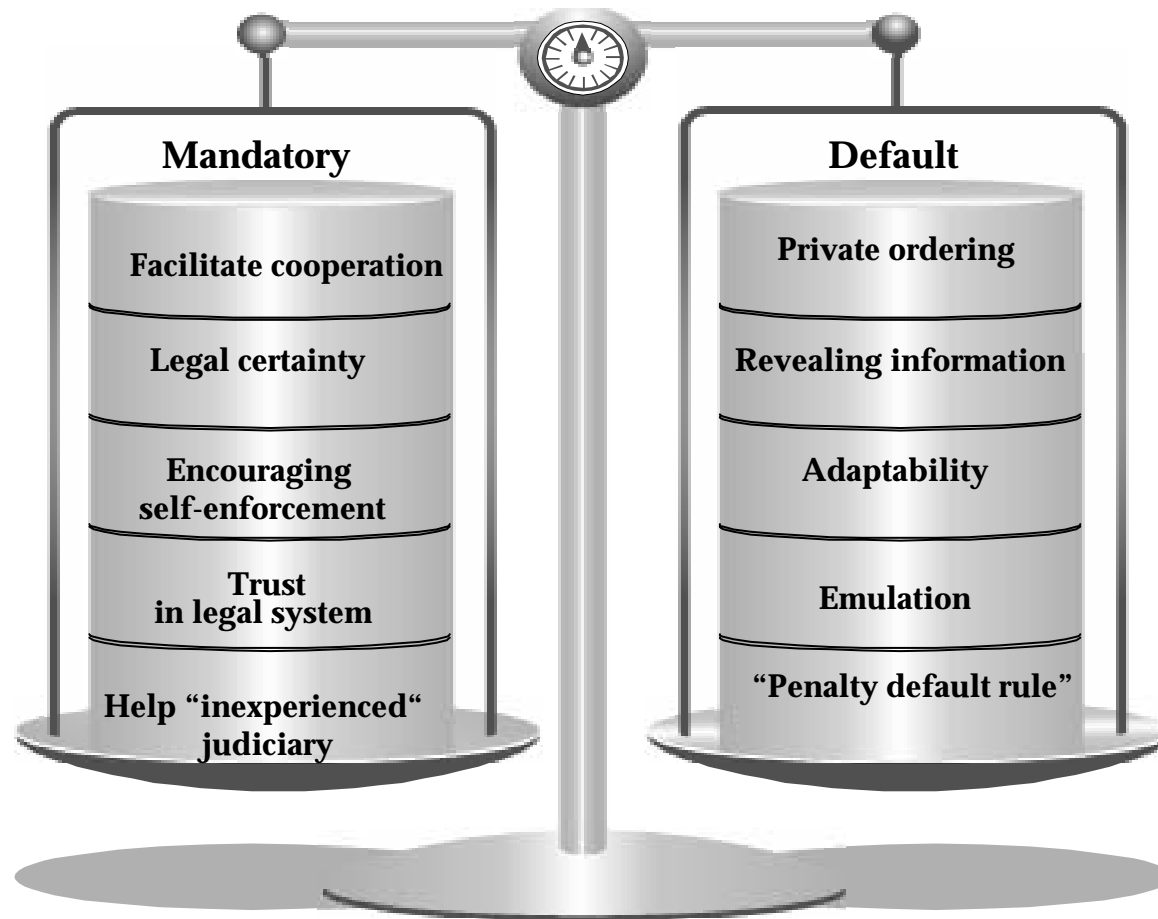
Company Law: *Information rights*



Company Law: *Enforcement*

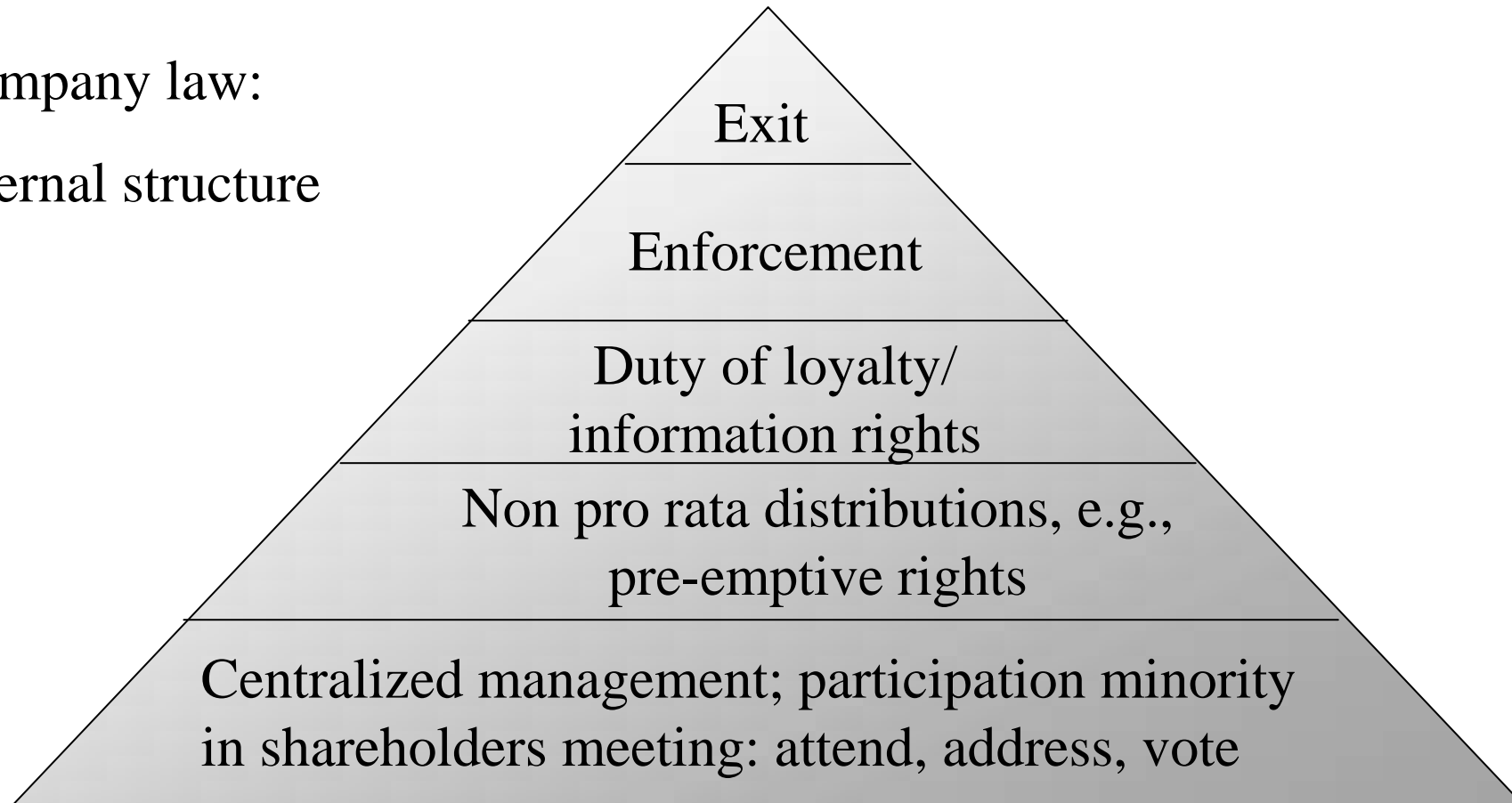


“Bright-line” & *Ex ante* Company Law Rules



Company law:

Internal structure



It is unclear whether company law can create value, but bad company law can certainly destroy value



Thank you!

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