

Talking Points of Ira M. Millstein¹

A Private Sector Perspective on Corporate Governance

Latin American Corporate Governance Roundtable

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- I am happy to chair this session on the Private Sector Perspective on corporate governance.
- As you look at the roster of speakers on this panel, you'll notice that -- in addition to being the chair of the OECD/World Bank Private Sector Advisory Group on Corporate Governance -- I'm the only representative of the United States private sector.
 - Today I'll speak with that U.S. private sector hat on.
- I am not an expert -- not even close -- on economic matters and realities in Latin America. Therefore, I have no menu of very specific suggestions to offer -- only generic ideas. I leave the specifics to your own respective private sectors to figure out.

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- My sole theme is that your private sectors have a major role to play in the emerging global market, of which Latin America -- with its huge resources and human energy -- will certainly be a part.
 - Latin American private sectors cannot afford the status quo. They must be visionaries and activists, and motivate both the public and the private sector reforms that are needed if Latin American economies are to participate, in any significant part, in the global economy.
- I am not here to preach the wonders of the North American economy -- as we watch its capital markets gyrate. Rather I'll provide some U.S. investor perceptions of Latin America and then talk about why it is your respective private sectors' responsibility to improve those perceptions -- if Latin America is to reach its full potential in spreading prosperity and well-being among its citizens. These investor perceptions are "real" -- they are based on surveys of North American pension funds and money managers.
- While it is true that the individual economies of Latin America vary, there are some common themes in investor perceptions of those economies.
- Investors perceive a need for improvement in areas that are essentially "public sector" responsibilities. These include:
 - political stability,
 - administrative inefficiency and bureaucracy,
 - taxes, legislation and the rule of law,

- capital allocation, management of debt, and external liquidity,
 - fiscal budget as a % of GDP,
 - inflation, money supply and foreign exchange rules,
 - bank viability,
 - crowding out by government of the private sector for credit, and limited access to credit for small and medium enterprises,
 - limited availability of long term debt and equity;
 - and still more.
- These are indeed public sector issues -- but improvement will require that the private sector realize how essential improvement in these areas is to development.
 - The private sector has to be aware and demand improvement; the public sector is often too entrenched in its old ways to implement the necessary changes.
 - Insisting on improved public sector performance in these areas is a private sector responsibility.
 - Troublesome investor perceptions don't stop with these "public sector" concerns.
 - Investors have also identified a number of areas where the private sector is fully capable of improving itself.
 - First and foremost, the private sector must continue to focus on the modernization and growth of its capital markets.

- There needs to be support for better securities regulation and enforcement, autonomous stock exchanges, and ways to broaden out access to domestic capital on the part of small and medium enterprises.
- Moreover, the flow of foreign capital into Latin America may be constrained until the corporate governance practices of Latin American companies converge more clearly -- no one says identically -- with international norms such as the OECD's Principles of Corporate Governance.
- This means primarily providing and enforcing minority and foreign shareholder rights, improving financial disclosure and accounting standards, and ensuring effective monitoring and oversight by boards of directors.
- I am a firm believer that sound corporate governance rules and practices -- transparency, accountability and equitable treatment in the relationships between corporations and capital providers -- encourage lower-cost, more stable capital formation and the efficient allocation and use of assets.
- Finally there are real issues relating to bribery, corruption and threats to personal safety. There is a high cost to these activities not only in terms of the bottom line, but also in holding back fundamental reform.
- The private sector can make improvements in all of these areas. Indeed, in some of the most important areas, only the private sector can bring about change.

- So I raise a North American voice in urging Latin America's private sector to take hold of all of these issues and strive for improvement.
- No one from the outside can do this for you -- nor should they. These are all local "do-it-yourself" projects.
- The public sector has no mechanism for making the private sector into efficient and profitable manufacturers or service providers. That requires entrepreneurial spirit, effective management, and productivity -- all characteristics that cannot be legislated into being.
- But the private sector does have mechanisms it can use to convince the public sector to provide the infrastructure needed to support a vibrant private sector.
- It requires paying attention to the performance of government, and accepting, and indeed promoting, necessary reforms. In the short range, these reforms sometimes can be painful -- but the longer range promises an infrastructure that supports the ability, which you have, to be formidable global competitors.
- Increased private sector activity -- both in terms of promoting better public sector performance and improving corporate governance -- is important to the economic and social well being of us all.
- With the rise of market systems throughout the world, now more than ever, the private sector is the primary engine of economic activity.

- The private sector is pivotal in meeting our daily needs -- food, clothing, shelter.
- It is through private sector activity that goods and services are -- and will be -- produced and delivered, jobs created inventions patented, technologies advanced and people employed.
- But it goes well beyond this, as increasingly, governments of rich and poor nations alike face limited capacity and revenue to address society's needs.
- And the private sector has assumed a large part of this role. It funds pensions, and supports charity. And increasingly, the private sector provides health care and education and basic utilities -- gas, water, electricity.
- Indeed, it is taxation of the private sector that funds public sector activity.
- And so, reliance on the private sector is increasing and irreversible. And, that is why I am so adamant about sound corporate governance.
- But there is also another very important reason why governance is so important. When corporate governance doesn't work well, both market systems and democratic political systems become vulnerable to attack as demand grows for a stronger "command and control" economy.
- However, history shows that "command and control" has its own enormous set of problems; even if it were efficient in removing corruption, allocating resources and alleviating poverty -- which it is not -- the price in terms of human liberty is simply too high.

- So I think it is crucial that private sector governance work; I think responsible private enterprise functioning in a market system is our best hope for wide relative prosperity and lasting political stability.
- Ultimately, it enhances a nation's prospects for long term economic growth -- growth that is a key factor in political stability and poverty reduction.
- Of course, the quality of corporate governance depends to a large extent on the legal, institutional and regulatory climate in which a corporation operates.
- But sound corporate governance rules and practices are not absolute nor set in stone. We can identify the common principles, but application requires flexibility and judgment as well as adaptation to local conditions, societal values and the condition of the supporting framework.
- That is why efforts to improve governance require significant private sector participation. It is, once again, the private sector that ultimately must do the implementation.
- So a private-public sector partnership -- as recognized by this Roundtable -- is a critical part of the reform agenda.
- I hope that one of the things that comes out of this Roundtable is private sector enthusiasm in Latin America for the promotion of good corporate governance.
 - It is my hope that the private sector participants here today will be the champions of sound private sector governance. Business person to business

person, I hope they will share experiences about the benefits of good governance, and encourage their private sector counterparts to implement and adapt basic corporate governance principles so they are relevant to a particular company's needs -- going beyond the minimum requirements to achieve competitive advantage in relationships with investors and employees.

- I hope they will work to grow the private sector institutions that support good governance -- the private sector professional associations of directors, corporate secretaries, auditors, accountants, and security analysts, and networks of institutional and individual shareholders.
 - And, finally, I hope they will encourage their private sector counterparts to pay heed to the concerns of civil society; to understand that over the long term, companies “do well” by “doing good.” Over the long term, fair and cooperative relationships with labor, and environmental policies that emphasize the responsible and sustainable use of natural resources lead to valuable reputational assets which in turn translate into profit.
- Before we get on with the program, three last points.
 - First, corporate governance reform is not an initiative designed to benefit the wealthy. Primarily it is an initiative to extend the

benefits and opportunities that flow for free, fair, efficient -- and non-corrupt -- markets.

- It is about ensuring that viable, efficient enterprises have access to low cost, low risk investment capital and that inefficient enterprises either improve or fail. It is about allowing merit and efficiency to win out, rather than entitlements based on relationships -- “who you know” -- and it is about ending the corruption, collusion and complacency that has prevented the vast majority of the world from benefiting from hard work, initiative, and efficiency in a free market.
- A well-governed private sector is more likely to be focused on the efficient use of assets -- including human assets – and is more likely to result in a wider spread of the benefits of corporate economic activity. Less corruption, less focus on “crony capitalism”, transparency, accountability, fair and equitable treatment of investors and cooperation with employees and other shareholders in wealth creation is really what we are talking about.
- Second, a related point: We are interested in your corporate governance because we now live in an interdependent global economy. Our best hope for peace and prosperity is your peace and prosperity -- and lasting mutually beneficial international trade relations among us.

- And, third, a point I've already mentioned but am compelled to repeat: Corporate governance improvement is really in your hands alone -- the local private sector. The regulators can't make it happen without you, nor can the international community.