



**Organisation for Economic Co-operation and Development  
In Co-operation with The World Bank Group**

**Corporate Governance in Latin America  
New Thoughts For A New Century**

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Chief Delegate of Brazil to the OECD**

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CORPORATE GOVERNANCE IN LATIN AMERICA:  
NEW THOUGHTS FOR A NEW CENTURY

*Remarks by H.E. Mr. Marcos de Azambuja  
Ambassador of Brazil to France  
Chief Delegate of Brazil to the OECD*

In a celebrated article, Professor Milton Friedman observed that the only legitimate purpose of a corporation consists of maximising profits for its shareholders. Friedman denied that corporations have any social role to play and that to pretend otherwise is to court disaster. A quarter of a century later the prevailing climate of opinion in the developed and emerging countries is that, while maximising shareholder profit remains the primary goal of any corporation, it does not necessarily preclude other legitimate pursuits.

More and more people feel that they have a genuine stake in the activities of the modern corporation – specially the multinational corporation – than has hitherto been the case. Stakeholders belong to various categories. The stakeholder community is largely comprised of trade unions, consumer associations, environmental organisations and ethics-based activist groups. It is coterminous with but not identical to the NGO community. Fortunately, there is one concept which helps to bring together the different strands in this fabric: Civil society.

An international civil society has come into being, which is likely to become increasingly active in the years to come. Many of its members come from our part of the world. Civil society has, of course, meant different things to different people in the course of Latin American history. But I feel confident that the term has largely gone beyond its previous political connotations and taken on a new set of meanings.

Many analysts now assume as a matter of course that modern corporations must be responsive or even accountable to civil society. Most modern corporations co-operate to a greater or lesser degree with civil society and in so doing they do not necessarily violate Friedman's dictum that the business of business is business. Rather, they contribute to creating value for society as a whole, not just their shareholders, by helping to preserve society's vital assets. Environmental concerns, for example, have been instrumental in raising corporate awareness of the imperative of sustainable development. Corporations have come to realise that they must help to ensure that the well being of future generations will not be sacrificed to the short-term maximisation of profits.

The idea that the modern corporation can and should create value for society as a whole is not entirely new. Nevertheless, it took the end of the Cold War and the advent of

globalisation to persuade leaders inside and outside the corporate world that this could be done within the framework of a market economy. Concepts like corporate citizenship no longer smack of socialist rhetoric or the “*dirigiste*” policies of the past. Many corporations are keenly aware that competition in the global marketplace now requires a clear commitment to corporate governance and corporate citizenship in the broadest sense. As I have suggested, governance broadly defined can and should include a clear-cut commitment to policies that create value and maximise wealth for present and future generations. Corporations that choose to ignore this basic principle will be at a clear disadvantage in relation to those who abide by it.

If we accept that the basic goal of corporate governance is the creation of value for the corporation, its stakeholders and society at large, then we must also agree that it must provide the conceptual and practical framework to achieve that goal. There are several key issues of corporate governance confronting managers, shareholders and board members world wide. Among these are transparency, accountability and the equivalence of standards.

Transparency has become a buzzword in government and corporate circles world wide. Disclosure of information that is vital to the interests of shareholders, other stakeholders and civil society is no longer an option to be left to the discretion of the board or the management team. Disclosure of information on cross-shareholdings, for example, is an essential ingredient of corporate transparency, as cross-shareholding schemes may impinge upon the capacity of non-controlling shareholders to influence corporate policy. Procedures aimed at preventing abusive self-dealing - better known as insider trading - are also part and parcel of a policy of transparency, inasmuch as abusive practices of this kind violate the principle of the equitable treatment of shareholders.

Accountability is another key concept. Domestic and foreign shareholders must feel confident that they will obtain redress for grievances at a reasonable cost and without excessive delay. They are entitled to and expect equitable and non-discriminatory treatment from the board. Alternative adjudication procedures, also known as alternative dispute resolution, have become increasingly popular in many countries as an antidote to costly and time-consuming litigation.

Equivalence of standards is yet another principle that has come to the fore. The global economy thrives on the unhindered flow of productive capital from where it is most abundant to where it is most scarce (and hence most needed). Countries seeking to attract foreign direct investment must take pains to assure prospective investors that uniform or at least equivalent standards of corporate governance apply in their domestic markets. Adherence to such benchmark instruments as the OECD Principles of Corporate Governance or the Guidelines for Multinational Corporations can help. But emerging economies in particular must give serious consideration to adopting internationally recognised standards of accounting and audit or to helping to develop such standards where they may be lacking.

Corporate governance in Latin America has become and is likely to remain a powerful tool for attracting foreign direct investment. Capital will go where it knows it is protected. Companies all over Latin America have learned that corporate governance becomes a vital issue as they begin to go public, to merge with local and foreign companies, to tap international financial markets and to operate in a truly competitive domestic and international business environment. The time may be ripe for Latin America to send a clear signal of its commitment to basic principles of corporate governance.

I wish to leave you with the thought that a voluntary, non-binding regional instrument, consistent with and patterned on the relevant OECD and ICC principles of corporate governance, could well meet that goal. I believe that the MERCOSUL countries could lead the way, developing a comprehensive set of common principles of corporate governance applicable to the four member States plus Bolivia and Chile. MERCOSUL could thus help lay the foundation for a more ambitious undertaking on a regional scale .

A Latin American Charter of Corporate Governance, to be drafted by governments in close co-operation with business, labour and civil society, would show the world that the countries of our region are ready, willing and able to commit themselves to basic principles of corporate governance. It would also send a very strong signal to multinational corporations active in our region that they should observe standards of corporate governance consistent with those observed in the host country.

Many Latin American countries are poised on the threshold of a new cycle of sustained growth and development that will hopefully signal a fundamental change of status for the region in the years to come. The newly industrialising countries of Latin America and their counterparts in the OECD area share a commitment to democratic values and a market economy. They are closer in spirit than they probably realise. I feel confident that the São Paulo roundtable will build on that foundation of shared values and help to pave the way for a closer relationship between our region and the OECD.

We in Brazil set great store by that relationship. The Brazilian observer delegation participated in the drafting of the OECD Principles of Corporate Governance and has been directly involved in drafting a revised and updated version of the OECD Guidelines for Multinational Enterprises. Brazilian business has also been involved in an advisory capacity in the work of the OECD. The Deputy Chairman of the National Industrial Federation, Dr. Stefan Bogdan Salej, was recently elected a member of the OECD Business and Industry Advisory Committee and will henceforth be closely involved with its work.

Last but no least, the Brazilian Institute of Corporate Governance has helped to make the São Paulo Roundtable possible in the first place. Its enduring commitment to issues of corporate governance is proof that the OECD countries are not alone in their endeavours to maximise the modern corporation's potential for creating wealth for shareholders, other stakeholders and society as a whole.

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