December 2008

Lessons Learned Series

corporate governance

better companies, better societies

'Walking the Talk': How the Brazilian Institute of Corporate Governance Succeeds

Institutes of Directors have been created worldwide to develop and promote good corporate governance practices in their respective regions. The Brazilian Institute of Corporate Governance (IBGC) is generally regarded as a success story, having earned credit for setting high standards and positively influencing the market. Over the years, its progress as a credible, not-for-profit institution required that it carefully developed its own governance standards.

By understanding how the IBGC managed its challenges and realized many of its opportunities, other institutes and non-governmental organizations can find their own paths to success.

Purpose and Vision

A not-for-profit organization, the IBGC was founded in 1995 by a group of business leaders who believed in the importance of good corporate governance to create value for corporations and society. It was a timely, powerful vision, developed as the Brazilian economy was struggling to recover from two decades of high inflation and slow growth. The organization's origins began with the Instituto de Conselheiros de Administração (Institute of Directors), which primarily focused on corporate boards.

In 1999, the institute decided to broaden its scope and change its name to Instituto Brasileiro de Governança Corporativa (IBGC). Corporate governance was defined as a system that encompassed relations among owners, boards of directors, officers, independent auditors, and the fiscal council.[1] The timing and the broad scope of the institute's vision attracted more and more members. Instead of representing a single professional group, the IBGC became the forum for discussions by all parties interested in corporate governance.

> *"The IBGC is an organization designed to create and disseminate knowledge. The IBGC is well aware that to fulfill this purpose, it must continually create value to members and to the market in general."*
>
> **Heloisa Bedicks**
> *CEO of the IBGC*

The IBGC's purpose is "to be the most important national corporate governance reference, by developing and promoting the best concepts and practices in Brazil, and contributing to improvements in corporate governance, leading to more equitable, responsible, and transparent businesses."[2]

[1] The fiscal council is a mandatory governance body for some corporations, whose purpose is to oversee the actions of the administration and give its opinion on certain matters to the shareholders.
[2] IBGC, *Code of Best Practice of Corporate Governance, Third Edition*, 2003.

Global Corporate Governance Forum

The Global Corporate Governance Forum is an International Finance Corporation (IFC) multi-donor trust fund facility. The Forum was co-founded by the World Bank and the Organisation for Economic Co-operation and Development (OECD) in 1999.

Through its activities, the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crisis, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner. The Forum sponsors regional and local initiatives that address the corporate governance weaknesses of middle- and low-income countries in the context of broader national or regional economic reform programs.

Donors to the Forum include the IFC and the Governments of Canada, France, Luxembourg, the Netherlands, Norway, and Switzerland.

IFC International Finance Corporation
World Bank Group

Transparency

IBGC's founding fathers wanted their institute to be a role model for corporate governance so they decided to "walk the talk" and adopt best practices from the start. Credibility required transparency—the foundation of all corporate governance principles. Full disclosure and audited financial statements were presented to members at the first general assembly. Top accounting firms agreed to audit the institute's accounts, even when the membership consisted of only a few dozen members. The audit work was performed pro bono until 2006 by different accounting firms. From fiscal year 2007 onwards, the audit services were remunerated to ensure mutual independence.

A detailed annual report has been printed and distributed to members since 1996. In response to member demands, the administration's transparency and accountability have continually improved. Annual reports, minutes of board and general members meetings, and other information is available at the IBGC Website (www.ibgc.org.br). Global interest in the BRIC countries (Brazil, Russia, India, and China) and the growing international presence of the IBGC may create additional opportunities for funding the institute's activities.

Revenue Sources, 2007	%
Membership fees	23.12
Sponsorship	4.82
Meetings and Annual Congress	23.08
Education	48.98

Independence

In a country like Brazil, where thousands of non-governmental organizations (NGOs) depend on government and company grants, independence is taken seriously. No financial support was ever asked from the public sector by IBGC, and in the early years, not even from the private sector. Today, 21 sponsors contribute to monthly events, publications, the Website and the Annual Congress. Sponsors must be committed to good corporate governance practices. Multilateral agencies – including the Organization for Economic Cooperation and Development, the World Bank/International Finance Corporation, the Global Corporate Governance Forum, and the Center for International Private Enterprise – finance specific projects related to education and publications. Contributions are welcome but these are neither material to the institute's finances nor do they create any form of dependence. Total sponsorship reached only 4.82 percent of IBGC revenues in 2007, while membership, events, and education fees accounted for 95.18 percent of total revenues.

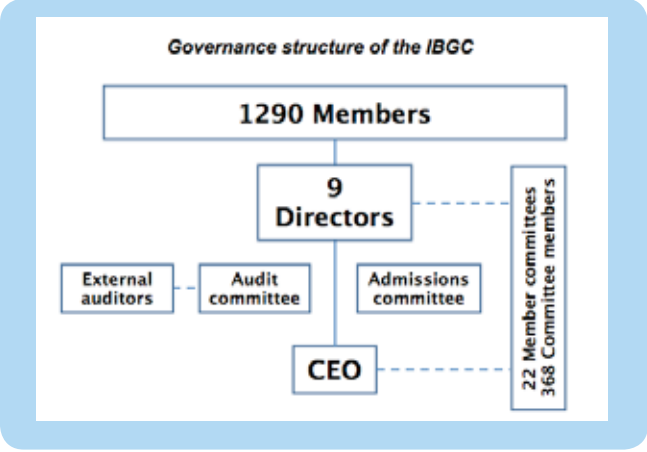
To ensure their independence, policy papers—a series of publications that describe official IBGC positions—are not sponsored.

Governance Structure and System

The IBGC's governance structure resembles that of large listed companies, with a nine-person board, an audit committee, and professional management. Board directors are elected by members at the annual general assembly. The positions of chairman and CEO are separate functions, and the chairman and two vice-chairmen are elected by their peers. Since the institute's founding, directors are elected for one-year terms, which can be renewed. The argument in favor of such short-term mandates is to hold directors accountable for the institute's performance and to give members a chance to renew the board each year. This rationale has been challenged, however, on the grounds that it takes a new director more than one year to fully understand the needs of his/her job, and that the election process has become so intense that directorship campaigns are disruptive to the organization's harmony.

Regional chapters are located in Rio de Janeiro, Porto Alegre, and Curitiba. Decentralization initially generated some control problems so regional expansion was slowed until detailed regulations were implemented to govern the chapters. These chapters are coordinated by a local board, which is elected by members from the region, promote their own meetings, and run their own courses following headquarter directives. Finances are centralized and the chapters are accountable to the IBGC board.

Eight board meetings and one general assembly meeting are held each year. Committee meetings vary in frequency but on average occur every two months.



The IBGC is essentially a volunteer-led organization. Board members, directors, regional chapter coordinators and committee members work pro-bono, and there are no perks. Each director pays the same membership fees and any charges for attending courses or lunch/breakfast meetings as does any other member. Governance documents consist of by-laws, board regulations, and a code of conduct that every member must comply with. The board evaluates itself formally at year end.

This governance system has been improved over time and helps to protect the institute's role model image and values. Having a good system is not sufficient in and of itself, for behind the structures and processes, there are less than perfect, flesh-and-blood people. With this in mind, the institute promotes periodic reviews by veteran members of its purpose, values, strategy, and governance system.

Committees

Volunteer committees have had a decisive contribution to the IBGC's development since its founding. Today, 251 different members (the actual number of registered committee members is 368, but some members participate on more than one committee) participate in one or more of the following 22 committees:

- Executive
- Audit (board directors only)
- Admissions (board directors only)
- Education
- Communications
- Annual Congress
- Finance, accounting, and capital markets
- Fiscal council and audit
- Risk management
- Legal
- IBGC by-law reform
- Vision implementation
- Director certification
- E-learning
- Governance awards
- Code of best practices reform
- Forum debates
- Policy paper
- Corporate sustainability
- Best practices in shareholders meetings
- State-owned companies
- Human resources

A core group of about 100 members is very active, while others contribute occasionally or attend periodically to learn about a particular area of interest. Committees organize discussion forums about governance issues, develop projects, and sometimes write papers. The IBGC eventually publishes some papers, after public hearings and board approval, in the form of best practice guidelines. IBGC committees developed the following documents:

> *"Investing time and effort at the IBGC is a very rewarding experience. It is one of the most productive uses of pro bono time for people involved in corporate governance, as the institute has a real impact in making Brazilian organizations better. Besides, the interaction with other professionals similarly interested in spreading the gospel of best practices provides a unique environment, unlike any other organization in our country."*
>
> **Mauro Cunha**, Chairman of the Board

- *Codes of Best Practices of Corporate Governance (three versions, fourth in development)*
- *Guidelines for the Fiscal Council*
- *Practical Guidelines for By-laws and Charters*
- *Guidelines for Corporate Risk Management*
- *Corporate Sustainability Guide*
- *Guidelines for Board Regulations*
- *Guidelines for the Implementation of Governance Website Portals*

Committees meet several times a year. Some have permanent agendas, such as the audit, admissions, executive, and education committees, while others are oriented toward concrete objectives, such as the current review of the Brazilian Code of Best Practices of Corporate Governance.

Committees are occasionally critical of IBGC's own performance. One such criticism concerned the alleged omission of the institute on recent scandals that involved acquisitions unfair to investors, lack of board surveillance, and outright company fraud in different companies. The Brazilian Securities and Exchange Commission (CVM) handled the legal aspects of these episodes. The IBGC Communications Committee criticized the board for not taking a firmer stand in support of better governance practices. As some of these episodes involved IBGC members — corporate and individual — and even former IBGC directors, a pro-active attitude would have been important to preserve the image of the institute.

The board responded by inserting a panel named "Lessons of Corporate Governance" at the December 2008 Annual Congress of the IBGC, where errors were openly discussed. This courageous attitude was recognized and greatly praised by participants of the Congress. Also at the Annual Congress, awards were given to the authors of the three best articles published in the media — all of them written about those scandalous events and critical of governance failures.

A step towards a more pro-active role of the IBGC was taken through a new category of publications named "Cartas Diretrizes" (Policy Papers), which expresses the institute's opinion on controversial

matters. The first IBGC policy paper was published in 2008 concerning a specific article in corporate law involving director independence.

Membership Size and Profile

Thirty-seven senior businessmen signed the institute by-laws at the 1995 general assembly meeting that created the IBGC. Only 15 members joined the first year, but membership grew steadily, reaching 1,290 by year-end 2008. In 1999, however, membership actually decreased by 10%. At that time some core members were concerned that the concept of the institute was maybe too advanced for Brazil. Sustainable membership growth began with corporate governance education and with the introduction of the new stock exchange listing rules of the Novo Mercado in 2001.

Reasons for Membership:

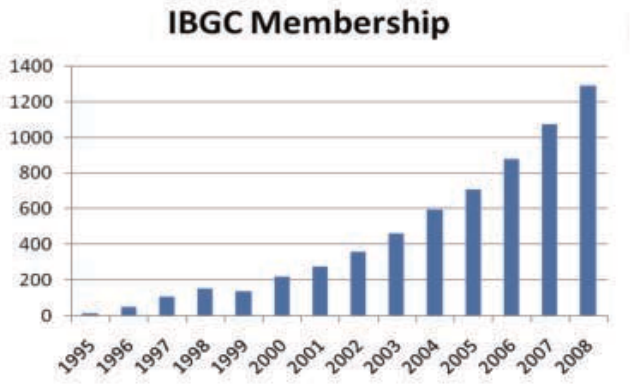
- Idealism (to share experience, to help others, to make a difference)
- Knowledge acquisition (how can I improve my performance as a director, executive or business consultant, and with what tools?)
- Networking opportunities

All IBGC members are motivated by a mix of these reasons, depending on their age, career stage, professional and/or company needs, personality, and other factors. (See box above.) Over time, interest in corporate governance has grown in response to the demand for director professionalism. New career opportunities opened for mature executives in the market and helped to further boost membership and participation.

Membership size and ideal profile of members have generated some controversy. Some believe that the bigger the institute, the more financially independent and influential it will be. Others, however, believe that the purpose of the institute would be better served by a smaller number of senior, high-profile and, idealistic members. Under this perspective, quality of membership would be measured by how members contribute to the institute vis-a-vis what they take from it. Other discussions concern "companies" (e.g., owners, directors, CEOs) and "service providers" (e.g., law, accounting and consulting firms), where the first group should be preferred as members over the second. The actual membership profile is not well known and the categories aren't clear. Should the head of a law or accounting firm be considered the owner/CEO of his own company or a service provider to other companies? Should an independent director be considered a company person or a service provider? Who are shareholders (e.g., short-term investors) and who are shareowners (e.g., company founders, long-term investors)?

Some concern exists about new members that don't understand and embrace the IBGC's purpose and values, and are attracted by the institute to explore networking for commercial opportunities. A rule of non-soliciting is included in the members' code of conduct to prevent the institute from becoming just a platform for business development.

Membership fees accounted for 23.11 percent of revenues in 2007. Attendance to monthly meetings and to the Annual Congress contributed another 23.08 percent.



Consulting, Rating, and Executive Search/Referrals

In one of the early IBGC strategic planning sessions, it was decided, after intensive discussions, that the institute would engage neither in consulting nor in rating individual companies' corporate governance efforts. Doing so could compromise the institute's independence and image. For similar reasons, the institute decided not to recommend consultants and/or directors.

There were often uncomfortable situations for the IBGC management when a company asked for the suggestion of a governance consultant and/or a director for their board. The institute's management produced a list of interested members but refrained from giving specific recommendations.

One of the earliest member services was the establishment of a "Directors Data Bank" with member resumés that interested companies could freely access. Despite disclaimers that the information did not constitute a recommendation, the experience was not satisfactory so this bank was canceled. A new project is now underway to require that each

candidate have proven experience and qualifications. The institute is also considering a "Consultants Data Bank" with similar requirements.

Corporate Governance Awards

In 2005, the IBGC launched an awards program. Information was collected and analyzed about companies' corporate governance policies and practices. IBGC granted awards in four categories: listed, non-listed, innovation, and, improvement. To guarantee independence, the evaluations were assigned to academic experts. They, in turn, advise an independent IBGC committee on award decisions. At this time, the decision committee includes an IBGC board member and two staff managers. As the award program becomes the "Oscars" of corporate governance, some members think the committee composition should be reviewed and become fully independent from the IBGC board and management. The award program is sponsored by companies that have no influence on the decision criteria.

Other award programs involve academic papers and media articles.

Education

In 1998, the IBGC offered its first course for directors in São Paulo. At the time, corporate governance was a little-known concept limited to advanced curricula in law and business schools. There was an initial controversy at the IBGC over whether director education should be handed over to business schools or be developed internally at the institute. The institute's decision to develop its own training programs was based essentially on the lack of adequate university programs and the mixed profile of the target students. These students belong to different age groups, have different backgrounds and occupations, and value practical boardroom experience on the part of lecturers. The need for institute funding was also important in the decision to run training programs.

The IBGC's education initiative consisted of a series of independent lectures given by volunteer members of the institute in such topics as board work, accounting, finance, legislation, and business strategy. The voluntary nature of the lecturers produced mixed results. Some lecturers regarded the service as a favor to the institute while others used it as a marketing platform. The IBGC decided to hire professionals, remunerate lecturers at market prices, and enforce a no-soliciting conduct. Today, the IBGC faculty is a selected mix of university professors and corporate governance practitioners (e.g., experienced directors, accountants, and lawyers). All lecturers must be members of the institute.

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The student profile of IBGC open enrollment courses is extremely varied, and makes the IBGC courses unique. In any class, there may be a 20-year-old heir concerned with his first job in the family business, who is sitting next to the founder of another company concerned with disputes among his grandchildren (the eldest IBGC student was more than 80 years of age). Some students are seasoned CEOs of international corporations who are nearing retirement and considering whether to become professional directors. A widow who owns a controlling stake in a large company may be attending training with an investment analyst of a pension fund. Some students are young lawyers, auditors, and consultants. Others work for non-governmental organizations concerned with social and environmental issues. What unites them is their involvement with their organizations' governance.

In-company courses have a far more homogeneous attendance. A demand has arisen for tailor-made courses for different constituencies. Most in-company demand comes from non-listed companies: family groups, and government-owned companies. There has been strong demand for training government officers to act as directors or auditors of companies in which the state has a stake.

It is generally agreed that the IBGC should be more pro-active with in-company courses, but some

IBGC Ninth Annual Congress

find such courses dangerously close to consulting. A well-designed in-house training program requires a diagnosis, an evaluation of requirements, and, recommendations similar to those given in a consulting project. Experienced consultants know that the best advice does not guarantee results and that implementation is complex. The excessive involvement of the IBGC, its lecturers, and management could lead to potential conflicts of interest and compromise the institute's image of neutrality.

Since 1998, about 3,800 students participated in the IBGC open enrollment and in-house courses. In 2008 alone, there were 790 participants. The number of students is expected to increase dramatically with the launch of a director certification program in 2009.

In October 2008, the Education Committee of the IBGC organized an advanced training program for members of the institute that included the participation in the National Association of Corporate Directors annual conference and in a three-day series of high-level meetings organized by the Global Corporate Governance Forum in Washington DC. It was an all-volunteer program, where each participant paid for his own travel and hotel expenses plus a share of general expenses. Twenty-eight IBGC members joined the study tour. The evaluations were so positive that a new program will take place in 2010, probably in Europe.

Education remains a high-profile activity and an important source of funding for the institute. Course fees accounted for 48.98 percent of revenues in 2007.

Election of Board Directors

In the early years, IBGC directors were recommended by a nominating committee, which was strongly influenced by the chairman. The directors were then accepted by acclamation by the few members present at the annual general assembly meetings. As the IBGC grew in membership and prestige, several independent candidates ran for elections individually or on alternative tickets. In the 2002 general assembly meeting, a bitter dispute led to a thorough reform of the election process. The nominating committee was eliminated and the election process formalized. Members could cast their votes at the general assembly, or by fax and internet. Proxies were limited to two, and vote-counting was done by an independent accountant. Board candidates were introduced by other members or themselves according to procedures set by the IBGC management.

Many senior members believe that the institute's governance requires further improvements. The present board has created an ad-hoc committee

PERSPECTIVES

"The main reason for the IBGC's impressive growth was its decision to focus on the system of corporate governance rather than on just the board of directors. Open, active committees attract a great number of volunteer members eager to learn and contribute to better governance practices. Membership of a Director's Institute would be much smaller because the focus is narrower."

Paulo Villares
Former Chairman of the IBGC

"Attitude is more important for independence than rules. When rating companies' governance practices we just ignore whether they are members or if they sponsor any IBGC activity."

Didier Klotz
Chairman of the IBGC Awards Committee

"Independence and commitment are the mainstays of the IBGC success. A large and dispersed membership keeps the Institute from depending on grants from government, companies or other organizations. The commitment of a core group of members motivated by corporate governance principles has contributed to create a better business environment for the benefit of the market and of society."

Sandra Guerra
Co-Founder, Former Director and Former CEO of the IBGC

"The IBGC was created for long-term investors, board members, CEOs and other top executives, and partners of large audit firms. The quality of members should be measured by what they contribute to the IBGC, not by what they take from it. This is even more important if they wish to be elected to the board of the institute. An excess of consultants, service providers, lawyers and short sellers is a long-time critical risk."

Bengt Hallqvist
Founder and First Chairman

"The IBGC is permanently concerned to "walk the talk" so it developed its own code of conduct to give an ethical dimension to all its internal and external relationships, and to set another example of compliance with its own message"

Lelio Lauretti
Founding member of the IBGC and Ethics Professor

consisting of former chairmen and other senior members to develop recommendations. One of the issues concerns the renewable, one-year mandate for the IBGC directors. Although the benefits in terms of director accountability are generally accepted, the short mandate and frequent elections are regarded by many as unnecessary and disruptive to operations.

A more important issue concerns board nominations. As the membership reaches the thousands, "ownership" becomes dispersed as with mature corporations. Additionally, although a corporation's performance can be measured by objective indicators such as return on equity, a mission-driven institution must be measured by more abstract indicators (e.g., "return on mission"). Some members are concerned that members may vote for candidates who are not aligned with the institute's purpose and values or that don't realize how immensely demanding IBGC board responsibilities have become. In 2008, about 25% of the members voted for directors, including proxies and votes cast by fax and internet. Attendance to general assembly meetings is usually small.

One alternative under discussion consists of articulating a group of senior members ("the IBGC Fellows"), to recommend candidates for the board who are aligned with the institute's values, long term goals and strategies. The influence of these senior members may prevent the kind of problems that are typical of corporations with dispersed ownership.

The IBGC's governance is still a work-in-progress. The institute will continue to fulfill its mission to society as long as it keeps improving its own governance. Like with any organization, governance is a journey, not a destiny.

LESSONS LEARNED

- **Good governance is essential to an institute's success and its authority in promoting reforms—walking the talk**
- **Focusing broadly on governance, rather than on board directors and their needs, provides more opportunities for growth of membership, activities, and influence**
- **Transparency is essential to ensure credibility and members' trust**
- **Independence must be taken seriously, including limits on sponsorship prevent an institute from becoming dependent upon and hence influenced by certain organizations**
- **Periodically review the purpose, values, strategy, and governance system**
- **Expect controversies but a robust governance system will enable an institute to resolve those in a way that reinforces its stature and protects its integrity**
- **Caution should guide how an institute recommends members for directorships and consulting arrangements**
- **Governance awards programs enhance public awareness about corporate governance but care must be taken that decisions on award recipients be fully independent**
- **Training programs are effective when they attract a varied group of participants whose diverse experiences can enrich discussions**
- **Determining the length of board member terms means striking a balance between enforcing accountability and enabling directors to build knowledge about the issues and the organization to make well-informed decisions**

IBGC AND THE FORUM: A STRONG PARTNERSHIP

IBGC and the Forum cooperate on many fronts, sharing expertise that informs the work and direction of both organizations. The IBGC is particularly compelling and persuasive for newly established institutes because their experiences are more relevant for emerging market and developing countries than the efforts of well-established organizations from the United States, the United Kingdom, and France.

IBGC members participate in the Forum's networks to build public awareness about corporate governance and strengthen capacity, particularly in emerging market and developing countries. As Panama developed its institute, IBGC representatives met with the board of the Institute of Corporate Governance—Panama (Instituto de Gobierno Corporativo Panamá). In July 2003, twelve IBGC members participated in a landmark event for Latin American trainers in corporate governance.

In April 2008, the Forum gathered representatives from institutes worldwide to participate in a workshop on training based on the Forum's *Corporate Governance Board Leadership Training Resources Kit*. Leonardo Viegas represented the IBGC at this session.

Viegas also participated as a member of the Forum's Private Sector Advisory Group (PSAG) in Forum efforts in Mozambique and a 2007 workshop in Sarajevo on uses of mediation to resolve corporate governance disputes. Bengt Hallqvist, an IBGC Founder and the first Chairman, Sandra Guerra, an IBGC Co-founder and former CEO of IBGC, and other IBGC members helped the Forum with events in Panama, Egypt, Bosnia, Mexico, Colombia, and other countries.

IBGC members attending the Forum's study tour in Washington

Twenty-eight IBGC members participated in a program organized by the Forum to provide insights into key issues affecting financial markets and investors' interests in light of the economic crisis worldwide. One session explored the unique issues of corporate governance for family-owned businesses and state-owned enterprises. Other topics covered included pension funds, shareholder engagement, and investment issues.

This *Lessons Learned* was written by Leonardo Viegas, a member of several boards, a founding member of the IBGC, and a member of the Private Sector Advisory Group.

LEARN MORE

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NEXT ISSUE:

The Forum organized its first knowledge management workshop on "Supporting the Development of Corporate Governance Codes of Best Practice." This workshop provided representatives from IFC regional facilities, corporate governance consultants, the Forum's staff, and its partners with an opportunity to share and learn from each other's experiences while identifying opportunities for collaboration.