

Emerging Markets Corporate Governance Network

Purpose:

The purpose of this concept note is to further discussions on the approach to and means of institutionalizing a research network focused on corporate governance in emerging markets by building upon the previous work undertaken by leading scholars working in the field with financing and support from the Global Corporate Governance Forum (GCGF)¹ since the kick-off meeting April 5, 2002. The Network is conceptualized as a joint undertaking of corporate governance research centers and internationally recognized scholars, with GCGF acting as the catalyst. While the Network has many researchers in developed countries as members, its primary focus has been to foster more research on CG in emerging markets and transition and developing countries.

History:

One of the mission's of GCGF is to sponsor research to ensure that CG reforms are underpinned by scientific analysis. Since the inception of GCGF, the amount of research on CG has increased substantially and the debate on what constitute good CG has intensified all over the world, with some commonality observed and lessons incorporated. Over the same period, a number of CG research networks and centers have emerged, boosting local research and policy-making capacity. Also, substantial reforms have taken place in many (developing) countries, yet, the outcome of these reforms has not been yet fully captured by academic research.

Supported by GCGF and kicked off by the one-day workshop on the Future of Research on Corporate Governance in Developing and Emerging Markets held by the GCGF at the World Bank in April 2002 and attended by 50 participants, an informal research network has evolved over the years.² Initially called the Global Corporate Governance Academic Network (GCGAN), the network was formally launched in February 2004 in Tokyo by Stijn Claessens, then professor at University of Amsterdam, and Florencio Lopez-de-Silanes, then Professor at the Yale School of Management. With moves of Stijn Claessens to the World Bank, Erik Berglöf, professor at the Stockholm School of Economics, became the new co-chair, and in summer of 2005, Florencio Lopez-de-Silanes was replaced by Luigi Zingales of University of Chicago. With the moves of

¹ The Global Corporate Governance Forum is an International Finance Corporation (IFC) multi-donor trust fund facility located in the IFC/World Bank Corporate Governance and Capital Markets Department. The Forum was co-founded by the World Bank and the Organization for Economic Co-operation and Development (OECD) in 1999. The Forum promotes sustainable economic growth and poverty reduction within the framework of agreed international development targets. The Forum focuses on practical, targeted corporate governance initiatives at the local, regional and global level.

² See the report by Stijn Claessens of 2004.

Erik Berglöf to EBRD and Stijn Claessens to IMF in 2007, however, the network activities slowed down further due their other commitments.

To date, the GCGAN has been largely supported by GCGF as it has financed the organization of one global and five regional meetings.³ In early 2007, Melsa Ararat, Director of Corporate Governance Forum of Turkey and 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.

A Mile Stone for the Network: 1. International Conference on Emerging Markets

Under leadership of Melsa Ararat and Burcin Yurtoglu, with oversight by Stijn Claessens, key members of the network were actively involved in the organization of the International Conference on Corporate Governance in Emerging Markets. It was held in November 16-19, 2007 with participation of 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.

The 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 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. These papers will be presented in a workshop in September hosted by Yale University's Millstein Center of Corporate Governance and Performance. And plans are underway for another global conference to be held next spring.

Value of a Network on CG:

The activities to date have confirmed the general experiences of global networks in today's world. Early examples of research networks in developed countries are the NBER and CEPR networks, respectively US and Europe based, which have been tremendously successful. The EC has adopted networks as its key vehicle for supporting research within the EU. Other examples are the European Development Network, EUDN; the ECB Capital Markets and Financial Integration in Europe Network, the International Research Forum on Monetary Policy; and the various research networks under the auspices of the BIS and central banks on risk management, and bank regulation and

³ Global in April 2002; Chile in December 2002; South Africa in January 2003; Korea in May 2003; Hungary in July 2003, India in December 2003, and Turkey, May 2004.

supervision. These experiences show that networks are effective in expanding and disseminating knowledge through research collaboration and fostering policy change.

Experiences with research networks in developing and transition countries are relatively new, but already point to significant payoffs. The African Economic Research Consortium (AERC) and the Global Development Network (GDN) are two networks that are aimed specifically at developing countries and that receive substantial support from various donors, among others, the World Bank. Both have been effective in enhancing local research capacity and in fostering policy reform in developing countries, by directly training researchers that have gone on to policy positions and by enhancing the quality of policy making. A more recent network is BREAD, Bureau for Research and Economic Analysis of Development, dedicated to encourage research and scholarship in development economics, with a focus on micro and households research. It receives support from various universities, development agencies and donors, largely in kind.

Networks like these often lead to the inception of several new research projects between nodes members, and can particularly favor the participation and mentoring of young, inexperienced researchers. Global networks can be especially useful as they foster international exchange among scholars in all regions, very important given the commonality of many of the issues across developing countries. Modalities of these networks involve conferences, seminars and workshops and the sharing of papers and data. Training of researchers is another area that networks have undertaken. A recent example is the European Corporate Governance Research Training Network, coordinated by CEPR and ECGI and financed by the EC.

During recent years, a number of CG research centers have been set up around the world, most often associated with premier developing/emerging country universities. Much CG research in emerging markets is now conducted by researchers associated with these centers, even when they are not based there themselves. These research centers have been very successful in local fund raising as the importance of good CG is being recognized in many markets. Some of these centers have also expanded regionally and have started to serve as leading sub-networks. There is still much need, however, to assure that research continues to improve and that research on individual countries is better disseminated so as to share methodologies and, to the extent possible, generalize lessons. This can be efficiently done by building global links, encouraging research collaboration and facilitating outreach.

Proposed Structure and Governance of the Network:

- The founders of the network are envisaged to consist of research centers in emerging markets as well as research centers in developed countries with a strong interest in research related to CG in emerging markets or cross-country studies including emerging markets. The proposed structure can easiest be seen from Figure 1. The model is a virtual hub, with several regional nodes of key institutions involved in CG research (with the names tentative), which in turn connect to other centers in their respective regions. There would be an Executive

Board, consisting of the representatives of the main donors/sponsors and the key regional institutions, and a secretariat. In addition, there would be a Governing Scientific Board, which would consist of leading academic researchers.

Insert Figure 1 here.

- The aim of the network would be to raise the academic quality of research and enhance the dialogue of researcher with policy makers and the private sector. The main aim of the network will not be to commission research. Academics are agents largely driven by curiosity, not necessarily by the needs of the societies or policy makers. While financial and other incentives, such as media exposures, can induce them to alter their research somewhat, these remain of limited power. Furthermore, it is important that any research remains overseen by scholars themselves to ensure academic quality and independence. At the same time, there is no doubt that structured dialogs between academics and practitioners on the implications of research for policy development and on the real world challenges can play very useful roles in setting research agenda.
- BICG, ECGI and AICG have set excellent examples of how a dialogue between researchers and practitioners can inform policy and practice development. CG advocacy centers are expected to be collaborating with and supporting the research centers in the proposed model.
- As GCGF evolves into a broader collaboration with international institutions such as UN, EU and GRI, and develops closer cooperation with local institutions in developing and emerging countries, it can assist the Network to evolve from a more centrally driven initiative linking researchers around the world to one that is initiated more by regional and local efforts. With its global reach and deeper impact, GCGF has the unique capacity to help the Network by acting as a catalyst, bring different regions and groups together and provide the Network with its valuable insights from practitioners and policy makers. While it can continue to co-finance and support some network activities, it can achieve greater leverage as others in the Network raise their own, private funding.

Proposed Network Activities:

Obviously, the type of activities undertaken by networks varies greatly depending on their funding, the nature of the topics, and the members. Nevertheless, there are many commonalities. The suggested list here for the EMCGN is based on these commonalities, what has worked well in the past for CG research (and most of these have been supported to date by the GCGF) as well as what can reasonably be expected to be supported.

- a. *Website, dissemination:* A Web site can be the institutional backbone of the network. Greater dissemination on activities and knowledge can be stimulated through an active website. Estimated costs: \$25,000 per annum. Funding need for the initial start costs are not included but amount to about \$15,000.

- b. *Biannual conferences*: To be held every other year (or every one and one half year) as the top global conference on corporate governance, where the forthcoming issues in corporate governance will be identified and broad lessons of corporate governance in developing countries will be drawn. The conference would include policy makers and practitioners, and can include a separate day for local market participants and investors' community. Papers would not be commissioned and the only costs to be covered would be for travel of speakers, chairs and discussants. Estimated cost: \$100,000 per conference. Local sponsors and GCGF would be expected to contribute the largest share of the costs and individual network members the remaining, with splits to vary by conference.
- c. *Biannual workshops*: To be held in between the biannual, global conferences where a smaller number of senior, international researchers interact with a small group of more junior researchers. In addition to this international workshop, regional workshops can be organized by the regional hubs.⁴ Cost per conference (for travel only, with much of the local and other costs to be carried by the other sponsors) is estimated to be \$25,000.
- d. *Small grants* for researchers from emerging market to free up/buy off some time and collect data. Initially, a small number of grants may suffice; say 10-12 of \$3,000 to \$5,000 each, or some \$50,000 per annum. The administering, paying small fees to academics for the reviewing or proposals, drafts, etc. could cost an additional \$25,000, making for a total cost of \$75,000 biannually.
- e. *Best paper awards at each conference* can encourage research on priority areas. An initial annual award budget of \$10,000 can be sufficient, and local funds can be procured for best award papers at regional or global conferences.

All these activities would require 6-9 days/month of capacity for coordination. The above activities would carry a total annual cost of approximately \$250,000, of which some would be expected to be covered initially by GCGF, in line with its past years' practices, and the remaining by ECGN, for which it will seek the funding from its main CG centers and other donors.

Proposed Dissemination and Publications

⁴ Seven workshops have been held so far with support from the GCGF/World Bank (Chile in December 2002; South Africa in January 2003; Korea in May 2003; Hungary in July 2003, India in December 2003, Turkey in May 2004, Shanghai in March 2005), with participations by researchers from the regions.

Key tasks for the network will be dissemination of activities, new research and publications. It will involve both passive and active forms of communications.

- Website, with links to regional and other agencies/sites active on CG, with focus on emerging markets/developing countries, a calendar of research events (using existing calendars such as that of ECGI, Global Proxy Watch, etc.)
- QUARTERLY newsletter on recent and forthcoming CG activities
- Biannual Research Report which reviews the research conducted on CG in emerging markets, synthesizes research findings and updates research priorities/gaps
- Call for Papers which draws from the Conference Report and encourages research in priority areas for the next upcoming conference, either global or regional
- Call for and dissemination of special issues for scientific journals on CG
- Working Paper Series published on the Web site (possibly in cooperation with SSRN and modeled on ECGI working papers series)
- Possibly a Handbook of Corporate Governance in Developing/Emerging Countries (see separate assessment for costs)
- Depository and clearing house of data bases collected on CG

Enc:

- Draft bylaws

Figure 1:

