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Corporate Governance and Corporate Social Responsibility

Emerging Markets Focus

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Foreword

I am delighted to write the Foreword for this book which is comprised of an excellent collection of chapters focusing on various aspects of corporate governance and corporate social responsibility (CSR) in emerging markets.

The link between corporate governance and CSR is widely accepted as being an essential element in a company's relationship with its stakeholders. The Organisation for Economic Co-Operation and Development (OECD) (1999) described corporate governance as "a set of relationships between a company's board, its shareholders and other stakeholders." In the same year, Sir Adrian Cadbury (1999) stated that "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals . . . the aim is to align as nearly as possible the interests of individuals, corporations, and society". It can be seen quite clearly that by the late 1990s corporate governance was being viewed as having an impact on and a relationship with, all of a company's stakeholders. This relationship was further emphasized by Sir Adrian Cadbury (2002) "the broadest way of defining social responsibility is to say that the continued existence of companies is based on an implied agreement between business and society."

The economic crisis and its social consequences have damaged confidence and levels of trust in business and stock markets, and this is an international phenomenon as the countries covered in this book indicate. It has also focused public attention on the corporate governance of companies, and on their social, environmental and ethical impact. As a result many countries, and companies in those countries, are renewing their efforts to promote best practice corporate governance and good CSR practices which should then help to create conditions which are more favorable for sustainable growth, responsible business and renewed confidence.

The chapters in this book are in three parts: (I) Corporate governance: legal framework and codes of best practices; (II) Corporate governance: some country experiences; and (III) Corporate social responsibility. The seven chapters in Part I focus on the legal framework and codes of best practices in countries as diverse as East Germany, Estonia, Hungary, China, Turkey, Nigeria, and Brazil. These countries have differing legal, political and cultural environments within which corporate governance practices have been developed — but that is the key point, that despite these differences, corporate governance best practices have developed in each of these countries. The extent to which corporate governance is put into practice in each of these countries does however vary although barriers have been identified and are being tackled. The seven chapters in Part II largely elaborate on some of the countries experiences in identifying specific features of corporate governance. These features include the audit committee, directors' remuneration disclosure, board composition, and ownership structure including pension fund activism. Part III focuses on the relationship between corporate governance and corporate social responsibility in specific countries including South Africa, India and Bangladesh, and also in specific institutions such as Islamic banks.

These chapters serve to illustrate that corporate governance and corporate social responsibility are intertwined. Ownership structure can play a significant part in influencing companies in the adoption of sound corporate governance and responsible business practices. In this regard, institutional investors can be particularly influential. Of course, the influence of stakeholder groups including employees, customers, government and wider society plays a key role as well.

The motivation for improving corporate governance and corporate social responsibility may be attributable to a number of reasons including helping to maintain or increase shareholder value; restoring confidence in the stock markets; and long-term viability of companies and the sustainability of profits. Companies which have adopted good governance practices and have appropriate CSR policies and practices in place will tend to be more sustainable in the longer term and will take actions to minimize the externalization of costs which might otherwise impact adversely on society.

The joint editors, Sabri Boubaker and Duc Khuong Nguyen, are to be congratulated on the scope and content of the book, covering as it does

many topical issues in corporate governance and CSR in emerging markets. It highlights not only that corporate governance and CSR are of fundamental importance in emerging markets across continents but also that this fact has been recognized at company, shareholder and stakeholder levels. Moreover that individual country's environments are developing to be more supportive, thereby encouraging greater engagement by companies and various stakeholders. This can only be to the long-term good of these companies and the emerging economies in which they operate.

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Preface

The numerous economic and financial challenges facing the emerging markets nowadays are unprecedented, wide-ranging and becoming increasingly more critical if they are not effectively addressed. On the one hand, the recent global financial crisis of 2008–2009 has significantly slowed the growth pattern of these countries, rendered their access to the international capital markets more difficult, and made them more vulnerable to external shocks given the increased financial dependence over recent years. On the other hand, the lack of competitiveness at the firm level as well as the operational and allocational inefficiency of domestic capital markets still remain unsolved and require an array of sound policy reforms, both regulatory and market-based, to reinvigorate economic growth and to build a resilient economy that is immune from the harmful effects of possible future crises.

Given the central role of firms in the competitiveness of nations, it is believed that strong corporate governance is the cornerstone of any successful economic reform program and the backbone of well-functioning capital markets. Recent academic literature has shown that good corporate governance generally pays — for firms, markets, and countries. Good corporate governance is consistently associated with strong performance in several dimensions, including corporate competitiveness, greater efficiency and productivity, better operational and market performance, an increased access to finance in better conditions, and lower cost of capital. It also restores confidence in capital markets, leads to more productive investments and stronger growth, and creates more employment opportunities, thereby reducing the risk of business failure and making the economies more stable and less prone to financial crises.

Another important fact is that without concerns about corporate social responsibility (CSR), the economic development process may not lead to

sustainable development and global prosperity. Conceptually, CSR consists in adopting strategies that are profitable for shareholders without imposing substantial social costs or causing harmful effects on other stakeholders including the environment. It is increasingly viewed by academics and practitioners as a source of social progress and a necessary condition for the long-run prosperity. Economic performance and social performance must thus be seen as inextricably linked and considered merely as the flip sides of the same coin.

This book addresses these two issues, i.e., corporate governance and CSR, in the context of emerging markets. It provides the readers with a rich collection of interesting studies, including survey, conceptual and empirical researches conducted in different country environments. The book chapters are divided into three parts. Part I deals with the legal framework and codes of best practices in emerging markets. Part II contains corporate governance experiences from different emerging economies. Part III focuses on the importance of CSR in the context of emerging markets.

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The contents of each chapter remain the sole responsibility of the contributing authors.

Sabri Boubaker and Duc Khuong Nguyen

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