



## **A comparative analysis of corporate governance code in BRICS countries**

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### **Abstract**

The objective of the study was to compare the codes of corporate governance (CG) practices adopted by the five BRICS countries i.e. Brazil, Russia, India, China and South Africa. Its nature is qualitative because the study focused on a specific group of countries – BRICS.

The research is documented because it is based on a review of documents and the literature. Among the five BRICS countries, the Corporate Governance codes of Brazil, Russia and South Africa are those most closely aligned with the recommendations. The present work attempts to make a comparative analysis, among major corporate governance codes of five emerging economies in the world i.e. BRICS. It was observed that although these countries are developing their codes of corporate governance practices. It focused on the corporate governance codes in the countries are at very different stages.

**Keywords:** BRICS, codes of good corporate governance practices

### **Introduction**

Globalization is significantly modifying the ways companies compete in international markets. Nowadays competition is also played in relation to corporate governance, especially for firms of emerging countries, which need foreign investors and other stakeholders' trust to build and develop successful long-term relationships. Brazil, Russia, India, and China—also known as the BRICs—have progressively strengthened their national laws and regulations on corporate governance, by adopting principles and rules that have characterized. The main objective of the present study was to compare the indicators of Corporate Governance issued by the five BRICS countries using the set of indicators recommended by the Regulatory bodies as categories of analysis.

The term corporate governance conveys about how a corporate organization is directed and controlled, the basis being a set of missions and value. It is more transparency of management system in corporate entities. It is a relationship between the various categories of participants in the corporate functioning in determining the direction and performance of the organization. This research aims at exploring the topic from both theoretical and empirical perspectives.

### **BRICS**

The term BRIC has been coined by O'Neil (2001), economist of Goldman Sachs, in a paper entitled. The world needs better economic BRICS. It is a significance in the world economy, the Goldman Sachs predicted that by 2050 the economies of the BRICS country taken together could eclipse the economies of the country.

### **Review of Literature**

▪ Zahra, Pearce Forbes & Milliken, (1999) "Study of Corporate governance in India" Companies usually appoint non-executive and, among them, independent

directors considering the contribution they can offer to the improvement of the board's activities. A number of studies have underlined that the board has two main functions, the development of which can take advantage of the presence of non-executive and independent directors. Such functions consist in monitoring tasks and service or advisory tasks.

- Luan and Tang (2007) <sup>[2]</sup> "Corporate governance in India" examine the mixed composition of the board, which often includes two types of members: the inside directors or executive directors, who work as company officers, and the outside directors or non-executive directors, who do not develop any managerial functions.
- Peng (2004) <sup>[4]</sup> "Corporate governance" Due to their different involvement in corporate affairs, the interests of the former are aligned with those of the management, while the role of the latter should consist in controlling the management and counterbalancing the weight of inside directors in decision-making, to guarantee an adequate representation of all shareholders' interests.
- Hillman & Dalziel (2003) <sup>[3]</sup> "Board independence on corporate Governance", the Board has the duty to advise the management and support them in the strategic decision-making process; in this sense, the board members provide their experience and expertise to the managers.
- Roberts, McNulty, & Stiles, (2005) <sup>[5]</sup>, "Independent board members on corporate governance" Independent directors are defined as experts whose knowledge and skills support the advisory function and supervision they develop over the board, providing a different point of view from the executives and improving the quality of decisions.
- Carter & Lorsch, (2004) <sup>[6]</sup> Finally, previous researchers have investigated the role of outside independent directors for effective corporate governance. Most studies have considered the link between board independence (i.e., The

presence and portion of independent directors within the board) and firm performance.

**Objectives of the study**

- To Study the Corporate Governance Code of BRICS Country.
- To Make a Comparative Analysis on Corporate governance code of BRICS Country.

**Research Methodology**

The Companies selected on the basis of Fortune global 500 list from BRICS Country. On the basis of Fortune global 500 list top 2 companies have been taken as a sample.

**Research design:** An empirical research has been done.

**Sample Size:** Two Companies has been selected as Sample size.

**Sample Selection Criteria:** Top two companies on the basis of fortune global 500 list in 2017.

**Data Collection:** This study has been based on secondary source. Secondary data has been collected from websites, journals, newspaper, books, magazines and annual report of selected companies.

**Duration of the Study:** The duration of the study from two year i.e.2015-2017.

**Data Analysis**

**Codes of Good Cg Practices Adopted In the Brics Countries**

Jim O’Neill (2001), president of Goldman Sachs Asset Management, coined the acronym BRIC to designate a group of emerging economies which, based on numerous studies, possess a significant potential for economic Originally, the acronym included Brazil, Russia, India, China and South Africa. Later, based on its likely future participation in the world market, South Africa was added to the group in 2011, changing the acronym to BRICS.

The BRICS (Brazil, Russia, India, China & South Africa) Countries adopted standards of corporate governance. However, several Multinational Enterprises (MNE’S) in BRICS adapt international best corporate governance practices on a voluntary basis, beyond national recommendations.

In Brazil, The Brazilian Institute of Corporate Governance (IBGC) issued the guideline on corporate governance. It is an organization solely dedicated to promoting Corporate Governance in the Country. The basic principles of Corporate Governance are Transparency, Fairness, Accountability, and Corporate Responsibility. There is no concept of having a Women director on the Board as per the CG Code of Brazil.

In Russia, federal commission the security market issued guidelines on corporate governance. The basic principles of corporate governance are followed and the right is given to shareholder to participate and vote on all matters in the general meeting present and also provide proper information

to the shareholder with required quality on a timely basis.

In India, Corporate governance formulated a system where a director is fair treatments with the duties and responsibilities of the affairs of the company. For effective corporate governance, its code use to be such that the directors of the company should not misconduct their power and rather should follow their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense. Various Committees (Such as kumar mangalam birla, n. R. Narayan murthy, and Dr. J.J. IRANI) on Corporate Governance was appointed and provided the recommendation on it. SEBI (Securities & exchange board of India) issued code on corporate governance in India.

In China, many entities both inside and outside companies play a role in shaping the behavior and governance of Chinese Companies. The inner circle consists of shareholders’ general meetings, boards, and management personnel who are engaged in operating the companies and are directly responsible for their governance. The outer circle is composed of regulators (chiefly, the China Securities Regulatory Commission-CSRC), stock exchanges {the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE)} and institutional investors. China has made rapid progress in corporate governance, in part because of the gradual removal of ownership and personal barriers, coupled with an increasingly globalized and mature business environment.

In South Africa, The King Report on Corporate Governance provides guidelines for the government formation and procedure of companies in South Africa. It is expressed by the King Committee on Corporate Governance. Three reports were issued by this committee. The first report issued in 1994 (King I), 2002 (King II), and 2009 (King III) and a fourth revision (King IV) in 2016. The Institute of Directors in Southern Africa (IoDSA) owns the process of the King Report on Corporate Governance. The Compliance with the King Reports is a requirement for companies listed on the Johannesburg Stock Exchange. The King Report on Corporate Governance has been cited as "the most effective summary of the best international practices in corporate governance". The philosophy of the code consists of the three key elements i.e. Leadership, sustainability and good corporate citizenship.

The BRICS have similarly improved their corporate governance systems in recent past. In all five countries, corporate governance framework is based on the guideline supplemented or specified through regulations and recommendations issued by stock exchanges, securities, and exchange commissions or other institutions. For the purposes of this research, the corporate governance frameworks of BRICS are summarized in –

**Table 1**

Country	Provision
Brazil	The Brazilian Securities & Exchange Commission. Code of best practices of corporate governance issued by the IBCG.
Russia	The Federal Commission for the securities Market.
India	The Securities Exchange Board of India (SEBI).
China	China Securities Regulatory Commission.
South Africa	King committee Report on Corporate Governance

### Independent board

Independent directors should not have any managerial, business, contractual or consultancy relations with the company, or work as employees of the company India and

China have also limited the independent board members' term of office and defined the maximum number of tenures, with the purpose of promoting a real separation of the independent directors from the company's management and owners.

**Table 2**

Brazil	Russia	India	China	South africa
ICBC CODE:  All external and independent directors	CODE: At least 1/4 of the board, which should have at least three independent directors	CLAUSE 49: 1/2 of the board, if the chairman is executive 1/3, if the chairman is non-executive 1/2, if the non-executive chairman is a promoter (or related to a promoter) no more than three tenures as independent director	CSRC: at least 1/3 of the board (including at least one professional accountant) HKEX: at least three independent members. No more than three tenures as independent director	The Board should comprise a balance of power, with a majority of NED. The majority of NED should be independent.

In all the BRICS there are rules issued by the Regulatory authority recommendations contained in the corporate governance codes that require the presence of independent members of the board. While Brazilian companies are requested to appoint as many independent board members as possible, even the totality, the other BRICS provides rules on the board composition as regards the minimum portion of independent members, from at least one fourth in Russia to one half in India when the chairperson is an executive director or a non-executive promoter of the company. Regular meetings reserved to non-executive and independent directors are required to Brazilian and Chinese listed firms: indeed, the absence of executive members and officers should favor impartial debate and neutral judgment in the interest of the company's minority shareholders and other Stakeholders. Independent directors are usually entitled to sitting fees linked to their meeting attendance. Independent directors are usually entitled to sitting fees linked to their meeting attendance.

### Non-executive/Independent Members

**Table 3**

	Brazil	Russia	India	china	South Africa
Independent Members	13	5	25	23	15
Executive NED		0	4	1	

Each board member as executive, non-executive or

independent. That permitted determining the average composition of the boards analyzed: in China, within a board formed by 13.5 members on average, 37.8% of the members were independent, 33.3% were non-executive, and 28.9% were executive; the results for India showed an average dimension of the board equal to 13 members, 48.8% of whom were independent, 22.3% were non-executive, and 28.8% were executive.

### Internal committee

According to the corporate governance system adopted in each country analyzed, specialized committees can be set up within the board of directors, the supervisory board and the Russian, or both of them.

The nomination committee is recommended by only India and China, while Russia and Brazil provide no regulation about this body. With reference to the composition, both India and China require a majority of independent directors, including the chairperson, while Brazil and Russia do not regulate this aspect.

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**Table 4**

	Brazil	Russia	India	china	South Africa
Establishment of the committee	20	11	08	15	6
Composition	17	8	18	15	2
Number or frequency of meetings	16	2	14	12	1
Attendance rate	14	2	12	10	0
Powers and functions	2	7	08	11	

### Remuneration Committee

The establishment of the remuneration committee is recommended in all the BRICs however, only India and China regulate the composition of the body. In particular, China requires a majority of independent directors, including the

chairperson, while India regulates the composition less strictly than China, by requiring at least three directors, all non-executive and comprising an independent chairperson, according to Clause 49.

**Table 5**

<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>China</b>	<b>South Africa</b>
CODE: the board may set up a remuneration committee	CODE: the board may set up a remuneration committee	At least three directors, all non-executive Independent person.	only directors, in majority Independent.	The board may set up a remuneration committee.

The remuneration committee had been mainly established in the Indian, the Chinese, and the Russian companies, while it existed in only 16% of the Brazilian firms analyzed. With reference to the composition, the committee was totally independent in only seven companies. Little disclosure was given by the Brazilian and the Russian firms relating to the attendance rate, while in the Indian and the Chinese ones such a rate was often 100%. The Brazilian firms' communication

was the least transparent about the committee's role and activities carried out. Focusing on the Indian context, the research also revealed a significant adoption of incentive-based remuneration systems for non-executive directors, including the independent ones: 11 firms in the sample emphasized the payment of commissions to their non-executive directors.

**Table 6**

	<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>china</b>	<b>South Africa</b>
Establishment of the committee	4	19	23	23	20
Composition	2	17	19	23	17
Number or frequency of meetings	0	5	19	22	15
Attendance rate	0	3	15	19	12
Powers and functions	3	14	17	18	16

#### **Audit Committee**

All the BRICs require the establishment of the audit committee, according to the law (in India), the code of best practices (in Russia), or the Securities and Exchange Commission's regulations (in China and Brazil). The committee's role is specified by all the BRICs, which identify

the main powers in overseeing the company's financial reporting, ensuring that the management develops reliable internal controls and comply with both the law and the code of best practices, and developing recommendations for the selection of independent auditors.

**Table 7**

<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>china</b>	<b>South Africa</b>
Audit committee comprised independent directors of the board of director. At least three members, all the member should be experienced in accounting issues, audits and financial management.	Audit committee should include only independent directors. Audit committee should be headed by an independent directors and its members should be independent. At least 1 independent director from the audit committee shall be an accounting professional.	As per company act2013, sec 177 The audit committee shall have a minimum of 3 members, all being non-executive directors, majority of the members being independent. be chaired by an independent director. The majority of members of audit committee including its chairman shall be the persons with ability to read and understand the financial statement. Chairman being an independent director shall remain present.	The Audit committee shall be chaired by independent director, and independent directors shall be majority of the committee. At least one independent directors	At least three independent directors, all of whom should be independent non-executive directors. The chairman of the board should therefore not be eligible for appointment as an audit committee

**Table 8**

	<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>china</b>	<b>South Africa</b>
Establishment of the committee	16	24	23	23	12
Composition	12	24	20	18	18
Number or frequency of meetings	0	8	24	22	12
Attendance rate	0	3	23	20	11
Powers and functions	15	23	23	14	12

The audit committee had been set up in the most part of the companies investigated (64% in Brazil, 96% in Russia, 100% in India, 92% in China, 84% in South Africa) and it often comprised a majority of independent directors. Transparency

on the meetings held by the committee was greater in the Indian and the Chinese firms, while the disclosure on powers and functions was good in almost all the BRICS. In Russia, a recommendation of having a strategic committee, but only one

had set up a corporate conflicts resolution committee, while none had neither set up an ethics committee nor a risk management committee. In India, all the selected companies had established a shareholder grievance committee, as

required by the stock exchange's regulations. In China, 3 out of 1 firms had introduced the recommended corporate strategy committee.

**Table 9**

	Brazil	Russia	India	china	South Africa
Risk management	3	0	8	13	12
Strategic	4	0	2	0	2
Shareholder	0	2	2	0	0
Supervision	1	0	0	2	0
Corporate conflict	0	0	1	1	0
Ethics- CSR	1	9	0	1	1
Related party transactions	0	0	1	8	4

Indian and the Chinese firms resulted the most inclined to introduce other committees. Risk management committees had been set up by 8 Indian companies and 13 Chinese ones, but also by three Brazilian firms. Eight committees had been formed in China for handle related party transactions. In Brazil, zero committees were responsible for shareholder relations. Finally, some Chinese firms had established specialized committees not only within the board of directors, but also the supervisory board, in particular, two supervisory board committees were in charge of monitoring the activity of the entire body.

Brazilian companies introduced the committees suggested by their national frameworks, such as the related party transactions committee, the finance committee, and the governance committee. In Russia, 9 firms had complied with the recommendation of having a strategic committee, but only one had set up a corporate conflicts resolution committee, while none had neither set up an ethics committee nor a risk management committee. In India, all the 2 companies had established shareholder/investor grievance committee, as required by the regulations. In China, 1 firms had introduced the recommended corporate strategy committee.

### Conclusion

The present Research write-up attempts to make a comparative analysis, among major corporate governance codes of five emerging economies in this world – Brazil, Russia, India, China and South Africa on different significant parameters of corporate governance. In this paper, company follow good corporate governance practices. The review of the BRICS legislative and regulatory framework on corporate governance demonstrates the existence of comprehensive institutional convergence among the five countries. All the BRICS have adopted criteria of independence, according to which the condition an independent director is incompatible with family, business, consulting, and ownership relationships with the company that could jeopardize the objectivity of judgment.

However, all the five countries have a common approach towards the formation of a significantly important mechanism for ensuring corporate governance, that is, the formation of Audit Committee comprising of either non-executive directors or independent directors or both.

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