Corporate Governance Comparison and Analysis: Brazil

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Executive Summary

First, we will compare the executive compensation practices in Brazil compared with the United States. We will present the problem of a shortage of executive talent within Brazilian organizations and analyze how it affects the compensation packages of their executives. Also discussed will be the relative low disclosure requirements of executive compensation components such as stock options. Recent scholarly findings will be presented which focus on topics such as short-term and long-term incentive plans, ownership concentration, disclosure requirements and social security taxation implications.

Next, we will analyze the size of the board of directors, the low levels of board independence, gender diversity, and other characteristics of Brazilian boards of directors. A comparison will again be made with boards within the Unites States. Throughout this section we will discuss the Sao Paulo Stock Exchange and its four levels of registration. Also discussed will be Brazil's non-profit organizations, as well as the Instituto Brasileiro de Governanca Corporativa, which publishes a Code of Best Practices of Corporate Governance.

Finally, we will discuss sustainability in Brazilian organizations. We will specifically focus on three key areas of sustainable development: social development, environmental development, and economic development. We will establish a connection between ethical issues and corporate social responsibility strategies across cultures. We will demonstrate the importance of preserving natural resources and using green sources. Additionally, we will establish a link between better performance, lower risks, and higher value. The evidence will show there is a strong relationship between best practices in sustainability and successful business management.

Comparison of Executive Compensation in United States and Brazil

One thing that almost everyone has in common is that when they work they expect to be compensated. Although this expectation may be common, the way that executives are compensated can vary from country to country. The G20 countries of the United States of America and Brazil each have their own distinctions when it comes to executive pay structure.

The executive compensation system in the United States continues to evolve as there is increasing attention and scrutiny given to the very large pay packages that the members of top management teams receive. Looking at the system today, there are a number of things that make up executive compensation in the United States. The main parts include cash/base salary, bonuses, deferred compensation plans, and equity, which include stock options, restricted stock, common stock, and others (McClure, 2013). Although executives for large publically traded companies in the U.S. usually receive cash each year in the millions of dollars, the main driver of the system is equity. The amount of equity and other types of compensation executives are receiving in America is easily found because the U.S. disclosure system is the most detailed in the world (ESO Brazil).

In 2012, the average pay of CEOs in America's top 350 companies was $14.1 million, which includes the exercise of stock options. When looking at these multimillion dollar deals, the salary is usually at around a million dollars and the equity portion can be worth tens or even hundreds of millions of dollars. For example, in 2011 the CEO of Coca-Cola Company, Muhtar Kent, made $30 million (Muhtar Kent, 2013). His salary was only $1.35 million but his equity compensation was over $13 million (Grantham, 2013). The rest was in bonuses and deferred compensation. Another example is Tim Cook, CEO of Apple Inc. According to Morningstar, he had a salary of $900,000 in 2011 but received $376,180,000 in restricted stock ("Apple, Inc.", 2013). After looking at examples like these it is clear to see that the main driver behind compensation for American executives is in the form of equity paid out in stock options and restricted stock.

So why do American CEOs often require multi-million dollar compensation packages? A large reason is because companies and shareholders are willing to pay for the best and the brightest leaders. It takes the right kind of leader with the necessary skill set, knowledge, and experience to lead a large corporation in an increasingly challenging economic environment. There are a limited number of people who have this set of skills and experience, which causes executive positions to be very competitive. Another reason why American CEOs are often paid so much is because leading a large public corporation requires a tremendous tradeoff. Most CEOs work more hours than anyone else. For example, Jeff Immelt, the CEO of the great American company, General Electric, has claimed to work 100 hour weeks for twenty four years in a row (Nisen and Lubin, 2013). In addition to the long hours, part of the reason for an executive's requirement for a multi-million dollar compensation package has to do with the fact that this has become the norm among large, publically traded companies.

History has shown that American companies are willing to pay large sums of money in order to obtain those executives that will help drive the organization to success. A great example of an effective leader is Steve Jobs. Under his leadership, the Apple stock price went from $10 a share in 2002 to $400 a share in 2011 and was valued at $350 billion ("Apple's Stock under Jobs: From $10 to $400"). This created tremendous wealth not only for him but also for shareholders. If one company isn't willing to pay the price for a top executive like Steve Jobs, then most likely, another will.

Although this may have become the norm in the United States, there has been much discussion on the issue of "pay for performance." Many people, and more importantly the regulators, hold the stance that no one should be paid as much as CEOs make and that their large compensation packages are not fair to everyone else. To put this view into perspective, data from 327 companies in the S&P 500 shows that the average CEO to worker pay ratio in 2012 was 345:1. This means that the CEO makes as much as regular workers in one day as they do in a whole year (CEO Pay and You, 2013).

To help address this issue, the Say-on-Pay rule, which is part of the Dodd Frank Wall Street Reform and Consumer Protection Act, was adopted by the Securities Exchange Commission on January 25, 2011. This rule asks shareholders to vote on executive compensation packages and whether or not they think it is fair (Investor Bulletin: Say-on-Pay and Golden Parachute Votes, 2011). So far, shareholders have approved compensation for executives at 94% of companies with over 70% approval (Bhattarai, 2013). This rule was meant to be a safe guard to investors of American companies and to the company itself. It is meant to give shareholders a voice on deciding whether or not they think the executive compensation is fair and is in line with company performance.

Like in the United States, the executive compensation system in the G20 country of Brazil also continues to evolve. The corporate landscape has been improving after the inflation crises in the in the 1980s and 1990s (Brazil Inflation Rate). During the time of economic instability, many talented business leaders sought work elsewhere in other developed countries. This has caused a shortage in skilled labor in the country. 64% of managers in Brazil say that they have trouble filling open positions, especially those for management positions that need a technical background (Big Country, Big Pay Checks, 2011).

This shortage has caused a high demand for talented staff within the country, which has been a major factor in rising executive pay. From the years 2006 to 2012, salary levels in Brazil grew by 20%, outpacing the United States (Skalmusky, 2010). Until there are more skilled workers who seek employment in the country, the battle for top talent will continue.

According to Dasein Executive Search, executives in Sao Paulo, Brazil earn the highest average salary, not including bonuses, than any other executives in the world (Skalmusky, 2010). The average salary in the Brazilian city is $620,000 compared to the average in New York of $574,000 and London, England at $550,000. Many other

incentives are also given to members of the top management team. For example, 81% of executives are given company cars. Overall, $1,160 billion was given out to executives in Brazil as extra incentives in 2010 (Skalmusky, 2010). These kinds of figures show that Brazilian companies are also willing to pay large sums of money to obtain those executives that will help drive the organization to success.

Although executives in Brazil receive the highest salary on average, we don't know how much compensation is paid in the form of stock options. Unlike in America where the disclosure of the executive compensation structure is very detailed, companies in Brazil can determine what detailed information they want to share. In fact, Brazil has a voluntary stock option disclosure (Schiehll, Eduardo, Paulo Renato Soares Terra, and Fernanda Gomes Victor, 2011).

Not having this disclosure means that there is a lack of transparency which is an important part to the firm's governance structure. In addition to the lack of transparency, most of the boards of directors in Brazil are so small that they have little effect. Many do not even have a compensation committee but instead have what they call a supervisory board, which is mostly made up of insiders. Studies show that with more inside directors there is a higher chance that the company will not voluntarily disclose its stock options. American companies are required to disclose this kind of information but most companies in Brazil choose not to (Schiehll, Eduardo, Paulo Renato Soares Terra, and Fernanda Gomes Victor, 2011). The only thing that the Brazilian companies are required to disclose is the aggregate compensation amount and not on short or long term income. Currently, there is also debate going on in the country about whether or not to count stock options as investment income or compensation income. If it is ruled compensation income then social security and labor contributions would be required (Recent Brazilian Decisions Address Compensation Nature of Stock Option Income, 2013).

Recent Scholarly Findings about Executive Compensation in Brazil

A shortage of talent has been plaguing Latin American companies for some time, especially at management and leadership levels. Compensation packages are evolving in Brazil in a response to this talent deficiency. In general, companies target their compensation packages at the mean or median rate of comparable-sized companies within the industry (Mondelli & Ferrari, 2013). However, in Brazil, there is an emerging trend in the last few years which shows these compensation packages being deliberately set closer to the 75th percentile of likened firms. In the article, Brazil: Focusing On Executive Compensation, Mondelli and Ferrari address issues surrounding the compensation of executives in Latin America countries, specifically Brazil.

Interestingly, the pay mix increase in Brazilian firms does not come at the expense of base pay. Base pay is still important in Brazil and executives there demand and receive substantial pay raises (Mondelli & Ferrari, 2013). General increases are, on average, in excess of 7% for executives. This figure appears to be stable according to 2013 estimates. These pay increases are significant when comparing them to other

significant economies such as Columbia, Mexico and the United States, estimated to be closer to 3%.

The vast majority of companies in Brazil have a short-term incentive plan in place for their executives (Mondelli & Ferrari, 2013). These plans typically have three different formats. The first is an annual bonus/incentive plan where the executive is evaluated against pre-established goals. Second is a profit sharing and/or results plan, also known as a participacao nos lucros e resultados, or PLR. Under this plan, a company can offer pay and bonuses linked directly to company profits or results. An extra incentive for companies to implement a PLR is that it has tax advantages as detailed by Brazilian Labor Law. The third plan is a hybrid plan, which is some type of mixture of the annual bonus plan and a PLR. The most popular short-term incentive plan is the annual bonus plan (40%), followed by the hybrid plan (38%), then the PLR (19%).

There has, however, been an increasing popularity in the implementation of long-term incentive plans (LTIs). LTIs are a relatively new phenomenon in Latin America compared with economies such as the United States and the United Kingdom, with implementation only really kicking off within the last 10 years (Mondelli & Ferrari, 2013). Generally speaking, LTIs in Brazil are currently designed to balance executive and shareholder expectations, allowing executives to get used to such a plan and assuring shareholders that there is a strong link between executive pay and long-term company value creation. The most common practice in Brazil is to grant LTI incentives annually, with awards vesting fully from three to five years after the grant date. The two most popular types of LTIs in Brazil are stock options, used 35% of the time, followed by restricted shares, which are used 30% of the time (Mondelli & Ferrari, 2013).

Along with the Brazilian capital market experiencing extraordinary growth numbers in the past decade, investors are facing a new challenge in Brazil. They must monitor the remuneration of top management and directors of companies with a lower degree of ownership concentration from now on, as well as the continuing conduct of controlling shareholders in companies with a greater degree of ownership concentration. Accompanying this growth, however, has been a reduction in the degree of ownership concentration in listed companies in Brazil. In the article, Ownership Concentration, Top Management and Board Compensation, the authors analyze the relationship between the degree of ownership concentration and executive and board compensation.

Linear regression models applied to a sample of 315 Brazilian companies traded on the national exchange indicate a negative and statistically significant economic correlation between executive compensation and the degree of ownership concentration. In other words, companies with a lower degree of ownership concentration pay higher compensation to top executives. The finding also showed that family controlled companies pay more to their chief executive, but not to the managerial team as a whole - and the compensation of director's increases with a greater proportion of control group members or their relatives on the board. The main result of the study supports the hypothesis that firms with a lower degree of ownership concentration pay more to their top managers and directors (Pinto & Leal, 2013). The results indicate that companies

that do not have a controlling shareholder or group of shareholders pay, on average, 79% more to top management and 80% more to their board. The compensation package to the CEO of these companies is more than double than in other companies.

International studies that have sought to empirically investigate the relationship between the degree of ownership concentration and administrator compensation generally concluded that companies with a lower degree of ownership concentration pay more to their top managers (Pinto & Leal, 2013). The authors research the phenomenon of collective action, citing that when shareholders are widely dispersed that influential shareholders are not even willing to attend shareholder meetings. Because shareholder absenteeism is so large in these low concentrated firms, remuneration issues tend to be left entirely up to company administrators. The research involved with this study found several fascinating statistics, with one 2002 study finding that doubling the percentage ownership of the largest shareholder reduces top management compensation by 14%, with all else constant.

The results from Pinto and Leal also concluded that, on average, an increase of 1% in the percentage share of the votes of the five largest shareholders leads to a reduction of the total top management and board of directors' compensation of 1.81% and 1.75%, respectively. There is evidence that relevant shareholders or family members of these relevant shareholders who hold board positions earn more. On average, the total board of directors' compensation rises approximately 1% for each 1% increase in the percentage participation of relevant shareholders or their family members on the board (Pinto & Leal, 2013). Family-controlled companies also pay 43% more to their CEO than the others, on average, although there was no evidence that they pay more to all top managers.

The authors of the article, Determinants of Voluntary Executive Stock Option Disclosure in Brazil, primarily underscore the need for stricter reporting rules for executive compensation disclosure in Brazil, as well as for the need to achieve a greater convergence with the International Accounting Standards. Victor, Terra and Schiehll concluded that the single most important regulatory initiative would be to make the disclosure of all components of the executive compensation plan mandatory. Currently, the mandatory rules require Brazilian listed companies to disclose only the aggregate amount paid to board members and top management, with no details about fixed, short-term, or long-term performance-contingent compensation (Victor, et. al., 2013). Moreover, the data on total compensation is unstructured, and what little information is disclosed is dispersed throughout the various voluntary and mandatory reports.

The article focuses mostly on voluntary executive stock option disclosure in Brazil. The authors conducted a study in which 68 Brazilian publicly traded companies that used and granted executive stock option (ESO) plans in 2007. The results showed that, on average, Brazilian companies disclose very little about their ESO plans. The study also found that Board size and the presence of a compensation committee are significantly and positively related to the degree of voluntary ESO disclosure (Victor, et. al., 2013). Externally, the auditing from a Big 4 auditing firm also saw a positive association with

voluntary firm ESO disclosure. In addition, results from the authors' empirical research revealed that family controlled firms in Brazil are associated with lower voluntary ESO disclosure.

In the 2011 article, Executive Compensation Instruments in Brazil, the authors discuss the need to consider different forms of payment if they want to avoid a dispute with local tax authorities over executive compensation. In a general rule derived from the Federal Constitution, not all payments to employees, including executives, are subject to the social security tax on the payroll (Isabel & Marcos, 2011). Only those payments which are "retributive and regular" are subject to the tax. In short, compensatory payments for actual work carried out are subject to the tax. Brazilian companies must be cognizant of this when structuring executive compensation packages.

The authors go on to discuss the different instruments of executive compensation and the implications of each when considering taxation. Bonuses may or may not be subject to social security taxation. If the bonus was paid for good performance, the payment would be considered retributive in nature and therefore subject to social security taxation (Isabel & Marcos, 2011). In response to this, many bonus payments are not characterized by companies as retributive in nature. Hiring and signing bonuses are said to be paid before actual services are provided by the executive and are, therefore, not subject to social security tax obligations if they are paid exclusively upon the hiring of the executive. Similarly, retention bonuses are considered the payment of a premium for an executive deemed strategic to remain for some time with a company. These retention bonuses are also deemed non-retributive in nature as the executive separately remains on the payroll for work performed, to include any performance-based bonuses in his or her contract.

Lastly, Isabel and Marcos touch on profit sharing plans and stock options. Profit sharing plans (PSPs) are granted immunity from social security obligations according to the payment policy set forth in the Federal Constitution. Tax authorities have questioned this law with regards to executives' compensation as opposed to more regular workers' compensation under PSPs. The tax authorities' rationale is based on the control involved from a productivity standpoint when comparing the influence of an executive versus an hourly worker. However, both administrative law and case law have so far rejected the tax authority's interpretation of the Federal Constitution, citing the protection of the free nature in which the profit and results sharing plan was created.

Stock option plans may or may not have the nature of salary, depending on the rules and conditions set forth by the stock option plan (Isabel & Marcos, 2011). For example, if the stock option plan provides a risk component to the beneficiary, the company can defend the position that the amounts paid to the executive do not constitute how social contribution taxes on payroll are calculated. The key for companies is not linking stock options in a way that appears retributive in nature.

Issues Related to Boards of Directors

The board of directors plays a pivotal role in any organizations ability to be profitable and relevant, regardless of the industry in which the organization operates. While the board of directors is often considered the watchdog of the company, and with good reason as that is one of their main roles, they are also responsible, at least somewhat, for many other aspects of the organization such as the cultural identity of the company and the strategic scope and direction that the organization is headed to name a few. There are many different moving pieces and combinations of how different corporate governance systems work and throughout this section we will discuss how the board of directors operates in Brazil. By looking at the composition of the board of directors and some of the issues surrounding it, we will compare and contrast the similarities and differences of the board of directors in Brazil and the United States.

Number of Directors

There are many different views and opinions on what the proper number of directors serving on a board should be in order to maximize the boards' performance and, ideally, in turn maximize the owners or shareholders performance. These figures tend to be a range of numbers or a recommendation of how many people should serve rather than a hard exact figure. While many countries may have a minimum number of directors required, they do not tend to set the exact number but rather leave that up to the corporation as different companies in different industries desire different traits and areas of expertise.

For instance, in the United States, legally a company must have, at minimum, five directors, however, the recommended amount is somewhere between seven and 11 depending on the company and the industry in which they operate. That range of directors helps ensure that there is enough diversity to strategically make decisions but it is not so high that it causes delay and slow reaction time to opportunity. While Brazil is constantly trying to keep their rules and regulation ahead of or on par with their growth, currently the legal minimum number of directors is three with limited rules outside of that.

Part of this number being so low is that many companies in Brazil are run by families that usually have founded the organization in one way or another. With so many businesses being run by families, it is common that the family acts in their best interest through their influence. The board is in more of a statutory relationship with the top management team, and the family, wherein they act as a rubberstamp of approval to the families' interest.

In the mid 1990's, Brazil was experiencing hard economic times with high inflation and a stagnant economy. Part of these hard times was due to the perceived investment environment of the country and the high levels of collusion and corruption. In 1995, a non-profit by the name of Brazilian Institute of Board Members was formed by entrepreneur's and business leaders to focus on addressing and changing the business environment in Brazil through creating a set of principles and guidelines for proper

corporate governance practices and alignment (Black, Carvalho, & Gorga, 2009). In 1999, the non-profit changed their name to Instituto Brasileiro de Governanca Corporativa or the Brazilian Institute for Corporate Governance (IBGC).

Throughout their set of guidelines, the IBGC suggest the number of directors fall between five and eleven depending upon the industry, business life cycle, and the companies need for information. While the suggested number of directors is not a law, the IBGC believes similar to the United States that five directors should be the minimum number for a board of directors. The IBGC has a very detailed and specific Code of Best Practices of Corporate Governance, which will be mentioned and highlighted throughout the upcoming sections.

Board Composition

Unlike the United States, Brazil has only been a free country since 1985 when the military-ran government relinquished control over to the people of Brazil. This allowed Brazil to grow into the 5th largest country in the world by population and the 8th largest economy during their expedited industrial revolution. While the focus on growing the economy brought new industries, new jobs and new opportunities, it also brought with it the lawlessness and corruption that thrives on a newly emerging market.

With most companies being family owned, keeping the power fairly centralized around the founders, there was low protection for investors and most firms had high concentrations of ownership. Many times, with the concentrated ownership, large shareholders can effectively monitor the management through influence on who is appointed to the board or personally sitting on the board (Gondridge, Clemente and Espejo, 2012). In fact, on average, the five largest shareholders tend to hold about 80% of the organizations equity, making the ability for a minority shareholder to have any power of voice or exit very limited.

In order for Brazil to change their worldly perception as a high risk area to do business, many groups such as the IBGC were formed to put in place suggested standards that would hopefully remove some of the negative views on investing in Brazil. Since there are so few government rules to follow regarding corporate governance, the burden to comply with these rules still falls on the organization but non-profits try to make impactful actions to following their suggestions.

Much like the United States, the IBGC suggest that boards be made up of at least five members with at least 20% of those members being independent outsiders, which are directors that have no current or previous ties to the company and are external to all of the company's internal workings (IBGC Code of Conduct, 4th Edition, 2010). This is very similar to the United States and their views on independent outsiders. The thought is the US is that the more independent the board is, the more likely they are to act in the company's best interest and work towards maximizing shareholder value. Another reason this is the suggested practice in the US and Brazil is to avoid the agency problem where executives may act selfishly and in their own interest instead of that of

the owners or shareholders. Although this is the suggested practice, in Brazil it is not easily enforced due to the lack of transparency and close knit family relationships.

Another issue regarding the composition of the board of directors in Brazil is the actual make-up of those who serve on the board. Duality, where the CEO of the organization also holds the chairman position on the board of directors, is not prohibited in Brazil which also raises questions about the influence the CEO has over the company's direction. In the United States duality is not illegal and actually is quite common. While there are no studies to show that duality necessarily is a bad thing, in fact it may even benefit fast paced organic organizations, there is an increased concern of the agency problem occurring when duality is present simply because of the lack of separation of power. Brazil also has very few women represented on the boards as well as minorities but this is not overly surprising considering the amount of family control that exists within Brazilian corporate governance.

Since there is a lack of government enforced policy regarding how organizations operate their board of directors, other companies have introduced ways to help with the IBGC's focus of increasing awareness of corporate governance. In 2000, the Sao Paulo Stock Exchange, known as Bovespa, introduced a new voluntary rating system involving four levels that companies can qualify for; Regular Bovespa, Level 1, Level 2 and Novo Marcado (New Market). Starting with Regular Bovespa, each level after is stricter than the last with each level requiring a higher importance on corporate governance. Level 1 calls for more improved disclosure among other things, Level 2 requires the option for preferred shares and Novo Marcado has the most demands stating that each firm must have a 25% free float rate of shares, offer voting common shares and comply with U.S. GAAP recording principles. Level 2 and Novo Marcado also demand that there are at least 5 board members and that 20% of those members be independent outsiders.

These suggested policies with the help of the CVM (Comissao de Valores Mobiliarios), the Brazilian form of the United States' SEC, have focused on increasing the transparency and independence of the board of directors. As mentioned earlier, these groups mainly offer suggested practices with the idea that if followed then the company's perception will be more inviting to investment. In upcoming sections we will look at whether or not these practices are effective and if they are being followed by the organizations of Brazil.

Committees of the Board

Many times, organizations require the forming of committees to more easily and efficiently delegate the responsibilities of the board of directors (IBGC Code of Conduct, 4th Edition, 2010). In Brazil, some of the more common committees are the audit committee, the finance committee, the human resources or compensation committee and the sustainability committee to name a few. While in the United States companies are required to comply with and report to the SEC, in Brazil, this is not exactly the case.

Recent legislation in the U.S., such as the Sarbanes Oxley Act of 2002, requires companies to have audit committees that monitor the internal actions of the organization in order to uphold a higher level of transparency. This is a continued problem in Brazil as most companies are reluctant to increase their transparency. So while the IBGC suggests that various committees be formed to increase this transparency and investor relations, many companies tend to form these committees but the effect they have is dependent on the influence the family or major shareholders have. In other words, the ability for the committees to effectively delegate the responsibilities of the board and how they monitor and control the management is directly in tune to the amount of discretion and influence the family or executives maintain.

Recent Scholarly Findings about Boards of Directors in Brazil

Corporate Governance in Brazil - Emerging Markets Review

Our first scholarly article is entitled Corporate Governance in Brazil, published in Emerging Markets Review in 2010. This study only received a response from 116 firms, after surveying in January of 2005, all firms listed on the Bovespa. The 116 responding firms consisted of 17 government-controlled firms, 11 subsidiaries of foreign companies and 88 privately controlled Brazilian firms.

Brazilian law requires public companies to have a board of directors, with at least three members. Firms that list on Bovespa Level 2 or Novo Mercado must have at least five members on their boards. As the table below shows, over two-thirds of responding firms have boards with three to twelve or more board members, with a mean (median) of 6.8 (6) members. Only five firms (6%) have more than 11 directors (Black de Carvalho, Gorga 2010).

Size of the Board of Directors		
No. of Directors	No. of Firms	Percentage
3	14	16%
4-5	22	25%
6-7	26	30%
8-11	21	24%
12 or more	5	6%
	Mean = 6.8	Median = 6
This table presents the board size and percentage for 88 Brazilian private firms which responded to the 2005 Brazil CG Survey. Minimum legal size is 3 directors.		

The IBGC suggest a level of independence for boards, but Brazil does not have a legal requirement for board independence. At many firms, some or all of the non-executive directors represent the controlling family or group. In Brazil, information on director independence is not publicly available. The survey found that 71% of the respondents do not practice duality and separate the roles of CEO and Chairman.

The table below reports the number and percentage of independent directors on Brazilian boards. As the authors report, as compared to other countries, firms in Brazil have far fewer independent directors. Over a third of the responding firms have no independent directors, another 19% have only a single independent director, and only 12% have a majority of independent directors. Overall, only 23% of directors are independent (Black de Carvalho, Gorga 2010).

Proportion of independent directors.

No. of Independent Directors	No. of Firms	Percent	Proportion of Independent Directors	No. of Firms	Percent
0	31	36%	0%	31	36%
1	16	19%	1-10%	2	2%
2	17	20%	11-30%	20	23%
3	13	15%	31-50%	23	27%
4 or more	9	10%	51% or more	10	12%
	Mean 1.58	Median 1.0		Mean 23%	Median 18%

This table presents the number and percentage of independent directors, for 86 Brazilian private firms which responded to the 2005 Brazil CG Survey and provided data on board composition. In computing proportion of independent directors, percentages are rounded up to next whole number.

Cross-listing with the U.S. or the New York Stock Exchange provides another way for Brazilian firms to exhibit their intention to maintain a higher level of disclosure and other corporate governance practices. From the responses, it was discovered that 19 firms are cross-listed with the United States and two are listed on Novo Mercado. (Black, de Carvalho, Gorga 2010)

Brazilian firms are not legally required to have a minimum number of board meetings per year. The survey showed most Brazilian firms hold at least four meetings per year, and of the respondents only seven firms failed to hold less than four meetings. Two

firms did not have a single physical meeting for the entire year. Two-thirds of the responding firms had between four and 12 meetings per year, which is a normal number by international standards. (Black, de Carvalho, Gorga 2010)

Amazingly, one legal requirement of Brazilian firms is that they keep minutes of board meetings. Only five of the respondents did not keep written minutes. Although the IBGC states that board of directors must keep an updated succession plan for the CEO, the study showed that only 13%, or 15 firms, have a succession plan. Surveyed firms with an independent director are more likely to prepare board meeting minutes and are more likely to have a succession plan for the CEO. The IBGC also suggests the evaluation of the CEO and board members, however, only approximately one third of the responding firms formally evaluate their CEO's performance.

Although Sarbanes Oxley Act of 2002 requires U.S. public firms to have an audit committee staffed by independent directors, this practice is not common in Brazil. Although many firms do not establish an audit committee, Brazilian law authorizes a separate body, not part of the board of directors, known as a fiscal board. The fiscal board has the authority to audit and investigate the firm's financial statements and record keeping. Members of the fiscal board can offer their separate opinions on the firm's financial statements at the annual shareholder meeting, where shareholders vote to approve the financial statements. The fiscal board is allowed to engage expert, outside consultants or accounting firms during their review of financial statements, at the company's expense. The fiscal board is required to have between three and five members. Interestingly, only approximately half of the fiscal boards had a member with accounting expertise. Only nine firms have neither an audit committee nor a fiscal board which was convened at least once during the last five years (Black, de Carvalho & Gorga 2010).

The survey included questions about compensation, however most firms did not respond. Firms did respond to general questions regarding stock options and the results revealed only 12 firms provide stock options to officers, and only two firms provide them to non-executive directors.

Brazilian law does not require a statement of cash flows or quarterly consolidated financial statements; however it does require annual consolidated statements. Bovespa requires additional financial disclosure for firms on its higher listing levels. Firms on Level 1 and higher must provide a statement of cash flows. Firms on Level 2 and higher must provide International Financial Reporting Standards (IFRS) or U.S. GAAP financials, and reconcile these statements to Brazilian financial statements; English language financial statements; and consolidated quarterly financial statements (Black, de Carvalho & Gorga 2010).

Brazilian law provides common shareholders with at least 10% of the common shares the ability to demand cumulative voting. Black, de Carvalho and Gorga found that cumulative voting is uncommon in practice. Similar to the U.S., in Brazil minority shareholders can legally elect one representative by majority vote. However, just like in

the U.S. the ability to cast a vote is available to those that can show up at the shareholder meeting, nominate a director and cast enough votes to elect their candidate.

In conclusion, the survey revealed that board independence is an area of notable weakness in Brazil: the boards of most Brazilian private firms are comprised entirely, or almost entirely of insiders or representatives of the controlling family or group. Many have zero independent directors. Brazil still needs to make progress in order for their practice of financial statements disclosure to be comparable to international standards. Audit committees are uncommon, although firms may have a fiscal board. Governance practices in Brazil are in constant change for the better and are making progress. The change and progress may be fueled by new IPOs on Bovespa Level 2 and Novo Mercado, and by some older public firms moving to higher Bovespa levels.

Corporate Governance: A Panoramic View of Brazilian Boards of Directors

Brugni, Bortolon, de Almeida and Paris compiled data from 2,023 resumes which they hand-collected from the board members of 315 public companies listed on Bovespa and highlighted approximately 30 characteristics of boards. The authors obtained their data from Software Economatica (Brazilian database and Reference Forms (RFs)), a new database launched in 2010 by CVM (Brazilian Securities Commission) with the purpose of increasing the transparency of disclosure of public companies. Data from 2010 was used as the 2010 data no longer showed a high frequency of rectification by firms.

In light of more than half of the selected firms not having fiscal boards, the authors included the interesting fact that Cosan's (The Catarinense water and sanitation company) board members are elected by the company's employees, which is in contrast to directors being named by controlling shareholders. The average number of directors has not changed since the survey findings of Black, de Carvalho, and Gorga in 2010, and the average number of members is currently 6.5. Women represent less than 10% of directors with a total of 179. Only one company has more than five women on the board and 196 companies have no women on the board. Interesting, Tekno, Metalgrafica Iguacu S.A. and Nordon Industrias Metalurgicas S.A. have boards that are entirely composed of women, with six, two and three directors, respectively (Brugni, Bortolon, de Almeida, Paris 2013).

In Brazil there is easy access to many post graduate courses, however the number of directors with this type of qualification is low. Only 186 of the 2023 resumes include a Master's degree. Only 31% of the 315 public companies have at least one accounting officer as a director. This percentage is low given the previously mentioned needs of auditing and fiscal overview. Over half of the resumes reviewed are lacking training in business, accounting or economics (Brugni, Bortolon, de Almeida & Paris 2013).

Adding to the lack of transparency, 200 of the firms do not have a single independent director on their boards and only 13.6 % of directors in the remaining firms are independent. Thus it appears that most companies do not follow the IBGC

recommendation regarding the need for boards with a majority of independent directors (Brugni, Bortolon, de Almeida & Paris 2013).

In the United States, the SEC recommends independence in board members and requires that a majority of board members be independent when the company in question has awarded the majority of voting rights to a single investor or group. The Brazilian SEC, the CVM does not require independence of board members; however since 2002 and with the desire to obtain foreign investors, it has recommended this type of independence. Although the IBGC does not have regulating authority, it also recommends this measure of independence.

The number of women on Brazilian boards is not entirely different from the number of women on American boards. In C. Nobel's January 2013 article in Forbes magazine, the author focused on women on the boards of directors, showing the similarity between Brazil and the United States. According to Nobel (2013), women hold only 14% of the board seats of S&P 1500 companies. Gender diversity in the boardroom is not a well discussed subject in the United States, however it may be discussed more often in Brazil as we will show in our next article. Brugni, Bortolon, de Almeida and Paris believe both countries remain silent on the question of company obligations to foster gender diversity. In general the authors' work reveals several disturbing issues, and demonstrates that many Brazilian companies do not follow the best corporate governance practices suggested by IBGC.

Gender Diversity in the Boards of Directors of Brazilian Businesses

Lazzaretti, Godoi, Camilo and Marcon focus their study on the makeup of the boards of directors; participation of women in the boards of different countries, particularly Brazil; and the "glass ceiling" phenomenon. As discussed earlier and reported by the authors, the U.S. and Brazil are lagging behind other countries in representation of female directors, specifically the countries of Norway, Sweden, Finland and The Netherlands.

Data in this study on the participation of women as directors were collected from data made available by the Brazilian magazine Madureira (2006), from two reports published by IBGC (2009, 2011), and other sources by Catalyst (Quick Takes, 2011) (Lazzaretti, Godoi, Camilo, Marcon 2013).

Of the 99 Brazilian companies listed on Bovespa and surveyed in the study, only 45 women are included in the 836 board positions, which is 5.4% of the positions on the boards. The authors also found the presence of a "second glass ceiling" showing that the presence of female presidents in boards of directors is only 3.9%. It was observed that age of the company, length of time on the stock market, and a larger size of board members tends to lead to more diversity (Lazzaretti, Godoi, Camilo & Marcon 2013).

Brazil (2011), Senate Bill No. 112, 2010 was proposed by Senator Maria do Carmo Alves requesting a minimum percentage of women in the boards of directors. The bill includes a schedule with a goal of women representing a minimum of 40% of the directors by 2022.

As seen in the table below from the European Professional Women's Network (2010) and the IBGC (2011), many countries have or are in the process of passing legislation to include women in as directors. The U.S. is seen as believing such quota legislation is too intrusive (Adams and Ferreira, 2009; Branson, 2011).

Country	2008	2010	Status of Legislation
Norway	44.2	37.9	Quota legislation effective
Sweden	26.9	28.2	Corporate Governance Code effective
Finland	25.7	25.9	Corporate Governance Code effective
The Netherlands	12.3	15.8	Corporate Governance Code effective, quota legislation proposed in parliament
UK	11.5	13.5	Corporate Governance Code effective
France	7.6	11.9	Quota legislation under discussion, very close to approval
Belgium	7.0	11.1	Corporate Governance Code effective, quota legislation proposed in parliament
Spain	6.6	11.0	Quota legislation effective, no sanctions
Germany	7.8	8.5	Corporate Governance Code
Brazil	-	7.1	Quota legislation under discussion, very close to approval
Italy	2.1	3.9	Quota legislation under discussion

Source: Adapted from European Professional Women's Network (2010) and IBGC (2011)

The study also found that 45.83% of the firms with women on their boards are family-controlled, which is also supported by a study by Lazzaretti and Godoi (2012) analyzing gender composition in Brazilian boards in 2011, finding that 40% of women appointed to boards are family members.

In their discussion the authors suggest that Brazil may benefit from adopting a model implemented by the Australian Institute of Company Directors (AICD). The AICD has a tutoring program which contains an education program called "Directors' Course in Mastering the Boardroom". Female candidates are tutored by company CEO's and then the AICD nominates the women to the boards of Australian limited liability companies. In an eight month period ending November 2010, Australian companies increased the percentage of women in the boards by approximately 11%. Brazil and the U.S. could benefit from such a program. Perhaps such a program would assist in additional programs to tutor women for top management team positions when the more experienced and older women are moved from TMT positions into director positions.

In conclusion Brazil and the U.S. need to establish more aggressive programs for mentoring and training women in order to provide more gender diversity in their boardrooms.

Sustainability in Organizations in Brazil

Sustainable development is an ethical concept that is related to meeting human needs while ensuring the environment is protected in the process (Lourenco & Branco, 2013). Corporate sustainability incorporates social, environmental, and economic aspects in sustainable development (Lourenco & Branco, 2013).

Social Development

In the article "Navigating Corporate Social Responsibility Components and Strategic Options: The IHR Perspective," Nini Yang, Caran Colvin, and Yim-Yu Wong conduct a study that builds a connection between ethical issues and corporate social responsibility strategies across cultures (Yang, Colvin, & Wong, 2013). The authors found that corporate social responsibility is difficult to measure because components of corporate social responsibility differ across countries which makes it expensive and hard to track (Yang, Colvin, & Wong, 2013). Yang, Colvin, and Wong found there is a knowledge gap between advanced societies and emerging economies, like Brazil, in terms of how corporate social responsibility relates to sustainability at both the firm and societal levels (Yang, Colvin, & Wong, 2013).

With globalization, there is a strong connection between businesses and society (Yang, Colvin, & Wong, 2013). If we look at corporate social responsibility from a stakeholder view perspective, there is an ethical rationale for sustainability. Stakeholders whether those are the owners, investors, or other individuals that are directly or indirectly affected by companies' decisions play a huge role in the success of the company. Companies have an ethical duty to find sustainable practices. When companies make poor decisions it is the stakeholders that suffer. It is important to stakeholders that companies perform in a manner that is consistent with their expectations and that companies demonstrate corporate integrity. It is one thing when companies abide by rules and regulations, but it is another for stakeholders to see that a company is looking out for their best interest and the interest of others.

Stakeholders are greatly affected by some of the decisions that companies make. Although companies do not always realize the impact of their decisions on those that are not directly associated, decisions matter. Companies need to view sustainability from both an economic and environmental perspective. Companies need to realize that some decisions that may be financially sound at the time may have detrimental consequences in the future and must think of all stakeholders that could potentially be affected by their decisions.

Critics of corporate social responsibility argue that it is counterproductive because it pits corporations against society and pressures corporations to find generic ways to exercise corporate social responsibility (Yang, Colvin, & Wong, 2013). Corporations are

facing pressure to find more ways to be sustainable yet they are facing pressure to reduce costs wherever possible (Yang, Colvin, & Wong, 2013). This creates the principal-agent problem. Even though executives know they should strive for corporate social responsibility, they increasingly feel pressured to maximize short-term profits (Yang, Colvin, & Wong, 2013). This is especially true when the economy is not doing well. Moreover, critics believe that executives haven't struck the appropriate balance between a firm's global strategy and local responsiveness (Yang, Colvin, & Wong, 2013). Many critics see corporate social responsibility as a way for corporations to get their name in the public for doing positive things that they should have been doing to begin with (Yang, Colvin, & Wong, 2013).

Yang, Colvin, & Wong define corporate social responsibility as "the commitment by organizations to balance financial performance with contributions to the quality of life of their employees, the local community and society at large" (Yang, Colvin, & Wong, 2013)(The authors definition of corporate social responsibility is consistent with the 2007 Society for Human Resource Management's definition for corporate social responsibility). The authors of the corporate social responsibility study found that addressing economic and social goals at the same time benefits the firm and society as a whole (Yang, Colvin, & Wong, 2013). In addition, they found that different cultural values such as time-orientation and whether a culture is more collectivist or individualist influence the ranking of corporate social responsibility (Yang, Colvin, & Wong, 2013). It is not a secret that companies should make decisions that are in the best interest of their stakeholders. However, it is challenging to incorporate corporate social responsibilities into a firm's global and profit maximization strategy (Yang, Colvin, & Wong, 2013). By finding ways to be enhance corporate social responsibility, a firm increases its chances for long-term sustainability.

Yang, Colvin, & Wong conclude that organizations are becoming aware of the importance of incorporating corporate social responsibility and sustainability throughout their organizations (Yang, Colvin, & Wong, 2013). It is crucial for companies to use their resources wisely, including people in management positions. For instance, human resource managers can strategically help corporations identify ways to incorporate corporate social responsibility both domestically and internationally (Yang, Colvin, & Wong, 2013). To succeed with corporate social responsibility strategies, corporations must rely on people both internally and externally and make sure that those people feel involved in corporate social responsibility initiatives (Yang, Colvin, & Wong, 2013). In sum, companies that effectively implement corporate social responsibility strategies are more likely to experience potential tangible and intangible benefits to their firms as well as short-term and long-term economic returns (Yang, Colvin, & Wong, 2013).

Environmental Development

In the 2013 article, "New Directions for a More Prosperous Brazil," the author, Thomas Trebat, notes that Brazil's influence in the global community is not just based on luck, but is the product of its diverse economy and emerging society (Trebat 2013). Latin America has been pushing for greater income equality and a reduction in poverty for

some time. Brazil, in many ways has spearheaded this effort by exercising economic management and developing social policies that have strengthened its country (Trebat 2013).

Brazil has been an important partner for the United States and other countries. It has the seventh largest economy in the world and has seen substantial growth in its agribusiness sector (Trebat 2013). In the past twenty years, Brazil has seen many policy innovations such as the reorganizations and modernization of federal, state, and local government finances (Trebat 2013). Brazil was hardly affected by the global downturn of 2008 due to its strategic policy decisions that were in place (Trebat 2013).

Even though Brazil is considered a developing country, it has the potential to reach a developed country status by the year 2020 if it continues its sustainability practices (Trebat 2013). However, it must improve its trust in government institutions, quality of economic infrastructures, accessibility to finance, and quality of health and primary education to rise above other countries in terms of its economy (Trebat 2013).

In addition to the society and the economy, sustainability encompasses the environment. In the future, Brazil will need to continue to focus on its environment and the preservation of natural resources, food production, and must remain a steward of the Amazon Basin and other agricultural resources (Trebat 2013). So far, Brazil has reduced deforestation in the Amazon region which has significantly helped reduce carbon emissions (Trebat 2013). Furthermore, many corporations in Brazil use green sources like hydropower, biofuels, and renewables to sustain their energy production needs (Trebat 2013).

Economic Development

There is a strong relationship between best practices in sustainability and business management (Lameira, Valdir de Jesus, 2012). In the Review of Business Management Article, "Sustainability, Value, Performance and Risk in the Brazilian Capital Markets," the authors review a representative sample of 205 Brazilian publicly traded companies between 2005 and 2009 to compare the relationship between the Bovespa sustainability index (used to determine sustainability best practices) and the quality of management (Lameira, Valdir de Jesus, 2012).

Based on the evidence collected, the authors found the best sustainability practices are associated with companies with higher performance, higher value, and lower risk (Lameira, Valdir de Jesus, 2012). Additionally, the authors took into consideration the market value, operating leverage, return on assets, and volatility in determining the quality of sustainability practices (Lameira, Valdir de Jesus, 2012). To achieve greater returns in profitability, it is imperative that companies align their companies' goals with society's best values (Lameira, Valdir de Jesus, 2012).

In the study, the authors put together a database with economic and financial information of 205 companies that were listed in Sao Paulo's stock exchange from 2005 to 2009 (Lameira, Valdir de Jesus, 2012). They applied an ordinary least square linear

regression method as well as generalized method of moments to determine the companies that had the best sustainability practices (Lameira, Valdir de Jesus, 2012). The results of the study suggested there was a relationship between sustainability and improved performances (Lameira, Valdir de Jesus, 2012). The authors found through the tests that they performed (by inserting the Bovespa sustainability index), that there is a connection between better performance, lower risks, and higher value (Lameira, Valdir de Jesus, 2012). Therefore, it is true that greater sustainability and better management are directly related and that sustainability is one of the key factors that was associated with companies that were doing well within the Brazilian capital market (Lameira, Valdir de Jesus, 2012). Therefore, it is logical to conclude that sustainability is a key driving force for company success.

Conclusion

In conclusion, corporations in Brazil find themselves in a competitive war for talented, valuable executives. This has resulted in Brazilian executives receiving a relatively higher compensation package than those in other countries. The boards of most Brazilian private firms are comprised almost entirely of insiders or representatives of the controlling family or group. In a response to a stagnant Brazilian economy as well as perceived corruption, the Brazilian Institute of Board Members was formed to create a set of principles and guidelines for proper corporate governance practices. Going forward, Brazilian companies must recognize the increasing importance of corporate social responsibility and the various facets of sustainable development.

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