

Different Approaches to Differentiating "Better Governed" Companies; Market Segmentation in BOVESPA and Rating Based Indexing in ISE

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Abstract:

We compare the objectives, processes and outcomes of different approaches adopted by BOVESPA and ISE (Istanbul Stock Exchange) for differentiating "better governed" firms listed on their respective boards. Novo Mercado of BOVESPA, launched at the end of December 2000, was able to attract over 30 companies within 5 years, whereas ISE CG Index, announced in February 2005, is not yet launched due to lack of interest from the issuers. We review the CG framework of Brazil and Turkey prior to corporate governance reforms which took place during 2000-2005, pointing out overwhelming similarities between the two, followed by a summary of different approaches used in both countries to encourage companies to subscribe to good governance practices voluntarily, including the design of corporate governance indices, and provide an analysis of the outcome. Based on the lessons of Novo Mercado and ISE, we conclude by offering some predictions and recommendations.

Keywords: Corporate governance, Turkey, Brazil, governance reform

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