

## Organising and disorganising trust: Corporate governing in Argentina

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The objective of this chapter is to provide a critical account of the evolution of corporate governance in Argentina. Corporate governance has remained a popular issue given the increasing global awareness about corporate misbehaviors of alarming proportions, including but not limited to the cases of ENRON, WORLD COM and PARMALAT. The speed of their occurrence, implications, and the multi-layered dimensions of responses, arguably, are some of the reasons that have made corporate governance discourse relevant, poignant, and enduring. If we narrow the meaning of corporate governance to the suggestion that it is simply the 'way corporations are run', then the predominant considerations around shareholder's primacy and the fundamental debates about the principal-agent dichotomy may be relevant and sufficient. Whilst the development of the discourse on corporate governance seems to emerge from the misdemeanor of the corporate world, its implications are beyond the corporate precincts. In fact, its antecedents, as we would argue in this chapter, seem grounded in the institutional fabrics of the context, in our case, the Argentinean case. Allowing a minimalist view of corporate governance will no doubt leave many governance issues unaddressed. Such perspectives will not only be limiting, but it may also be misleading. Even in Anglo-Saxon contexts, it is now realized that corporations are constituents of multiple competing objectives and interests, and cultural and management traditions play a crucial role in how corporations are managed. This means that the days of the single bottom-line, i.e., supreme focus on profitability, seem numbered, given the ascendance of the *triple bottom line* discourses, at least in spirit if not yet in action. Thus, shareholder supremacy, as frequently espoused in agency theory, is rightly, giving way to stakeholder theoretical perspectives.

Yet, as corporations assume global prominence and expand their influences into diverse jurisdictions due to globalization and the impact of technology, the Anglo-Saxon conceptualization of corporate governance is vigorously challenged, becoming apparently inadequate, giving way to broader and context specific ideas of how corporations are, and should be run. In this sense, there are emerging discourses around country based and institutionalized construction of corporate governance. Directly related to this is the role of ethics, values, culture, political and economic institutional arrangements that are context specific and dynamic. The argument being that these institutional arrangements are crucial. They shape the nature of corporate governance architecture in places and provide the foundation for the effectiveness or otherwise of laws and regulations. In other words, corporate failures are symptomatic of broader institutional and political failures.

This suggests that a better approach would be to consider corporate governance as part of the mechanisms within the broader institutional and organizational settings (Adelopo and Rufai, 2018). In this way, corporate governance discourse reflects the wider concerns in a context. Although risky, this allows a holistic approach to governance and a reflection of the organizational reality in a context. It is in this way that the root causes of corporate failures will enjoy proper attention rather than superficial treatment. This institutional and organizational construction of corporate governance is missing in the vast amount of corporate governance literature. This literature has given far too much prominence to the positivist and deductive-quantitative analytical approaches to corporate governance to the detriment of the other methods of enquiry in the field.

This study addresses part of these gaps by approaching corporate governance in a unique context: Argentina. Argentina is a noteworthy case for the study of corporate governance because of its paradoxical and extreme circumstances (Gaggiotti, 2012). It was one of the world's 10 wealthiest nations between 1880 and 1930; and represented a fully integrated economy in the global market of commodities for almost 200 years. Based on GDP, it is currently the third largest economy in Latin America and has ranked among the top 30 economies of the world for the past 10 years (WORLD BANK, 2010; IMF, 2010). Argentina was the preferred destination for foreign investment and corporate expansion by many MNCs

between 1989 and 2002. However, this unrestricted access partly accounts for the collapse of over 82,000 local SMEs in the country. The economic prognosis of the country at the turn of the 21<sup>st</sup> century was precarious with 21% unemployment rate and more than 11 million people below the poverty line (Cortés Conde, 2003). Nowadays, Argentina has one of the least developed stock markets in Latin America, approximately 200 companies are registered on the ARGENTINA STOCK EXCHANGE, 0.01% of the firms registered.

Corporate Argentina mirrors the political and economic situation in the country. Corporate governance practices are largely non-existent and at best really, emergent. Until 1991, there was almost a monopoly of family-owned companies in Argentina (between more than 80% of SMEs and 100% of MNCs, following the INTER-AMERICAN DEVELOPMENT BANK). This characteristic gave a particular local meaning to words like “governance”, “trust” and “ethics”. However, Apreda (2001) observed a rapid increase in foreign ownership of most big family companies in the early 1990s. Foreign groups and investment funds expanded their ownership imposing their own corporate governance practices, in a clear indication of mistrust in the local practices of corporate governance. Following a similar pattern in other Latin-American economies, Argentina was ambivalent when adopting corporate governance practices developed internationally, particularly in Anglo-Saxon countries. Argentina initiated its own corporate governance reforms sometimes following international codes sometimes not, either because of internally promoted reforms inspired by nationalistic ideologies or in response to international demands (Briano Turrent and Saavedra García, 2015). The absence of a national corporate governance guidance in the country seems to aggravate the tensions in many corporations with significant foreign ownership as they attempt to harmonize their home country corporate governance systems with the Argentinean corporate structure dominated family businesses.

The effects of this collision of dual practices that are alternatively implemented - a very local South American/**Rioplatense**/Argentinean one, based on SMEs, Argentinean politics and customary practices of CG, and a global, standardized Euro/Asian/American, based on MNCs and international standards - are still unknown. Argentina is indeed an under-researched context within the corporate governance literature, despite being a unique historical case from which to study how governance practices could be implemented and ignored periodically.

Exploring the ways in which ethical organizational ambivalence, as a social phenomenon with wider implications in other spheres of life, is contriving to shape the evolution of corporate governance in the Argentinean context could be illuminating to understand other cases in Latin America and abroad. Our intention in this chapter is to bring the Argentinean society into the spotlight in terms of its cultural, institutional arrangements, their functionality, the multiple forces that shape corporations and how these forces affect corporate governance and development.

### **Organizational roots of corporate management in Argentina**

A way of approaching the status of CG in Argentina is to analyze the corporate antecedents of the country (Briozzo et al, 2008). The Argentinean corporate arena is dominated by family business managed by closely knitted families members, friend, and allies. Trust is a central part of this management arrangement. Consequently, management by non-family member or independent outsider is very rare due to mistrust. Even large multinational corporations such as ARCOR still maintain their family presence on the board<sup>1</sup>.

Mainstream literature (Gutierrez and Damián, 2018; Suess-Reyes, 2017; Kraakman, 2017) suggests that implementing active governing bodies based on family links contributes to trust, much more than considering the continuity of the family business in which family bonds, relations and networking are based solely on trust. However, it is not clear that applying the basic principles of governance and management will favor transparency in decision-making and control in Argentina’s organizations. It could indeed be that the recurrent Argentinean crises could be explained by the fact of the impossibility to apply mainstream corporate governance approaches, instead of making “trust” the main ethos of the

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<sup>1</sup> The number one company in Argentina, the multinational ARCOR, tried for years to recruit an external CEO. The third generation of founders (the company was founded in 1951 but its origins date from 1924) are still in charge of the daily management of the company even though an alliance with COCA-COLA was signed in 2010. This similarly happened with TECHINT, now a global MNCs, founded in 1945, where a fourth generation of managers of the same family still run the company. In both cases, the origins of the corporations were constructed as ancient stories of Italian founders. Mistrust in non-family ties was a common practice when governing these corporations.

governance outside of the family business. The case of Argentina has been described by Colazingari and Rose-Ackerman (1998) as a “paternalistic democracy”, where family social ethos (“father”, “mother” and even “family” became concepts to explain the social and the organizational) underpins any other organizational practices; even management and governance and transcend government policies and legal practices. Etcheverry and Manóvil (2013) suggested that mistrust and uncertainty is common in Argentina because there is no unique legal or regulatory framework that provides a consistent definition of corporate governance.

It is true that, as Adnan and Ahmed (2019) argued, there is no single corporate governance model. Shen and Gentry (2014) pointed out that governance depends on strategic management models. Among the two widely acknowledged corporate governance approaches, i.e., the Anglo-American model and the central European model. The former is oriented towards the management practices of shareholders or the market, while the latter focuses on the management practices of parties or relationships (Ahmad and Omar, 2016). The central European model emphasizes the relationships between the firm and controlling shareholders, with financing being less dependent on the capital market than on banks. It is possible to situate the corporate governance practices in Argentina within a permanent tension between the two or within ad-hoc local models based on ideological and political contexts.

Another aspect to highlight to evaluate the applicability of a corporate governance model in a particular case is to consider the degree of development of the market in which it is immersed. In this sense, Argentina is usually considered an emerging economy with a developed non-consolidated market, in permanent fluctuation and change. Usually, emerging economies have tried to adopt the legal system of developed countries, particularly the Anglo-Saxon system, either due to internally promoted reforms or in response to international demands. However, Argentina has oscillated between implementing alternative models or justify the no implementation of any model based on local circumstances.

Unlike developed markets where the share capital is atomized, the quality of the investors is institutional, there is asymmetry between the investor and the management, this is characterized by transparency, accountability, and abundant information. In developed non-consolidated markets such as Argentina, capital ownership is concentrated, companies are characterized by being familiar and closed, the control agents are clearly defined, the owners and management are exercised by the same network of people, the information is scarce and there is low protection to minority shareholders.

### **The legal framework for corporate governance in Argentina**

Argentina in its National Constitution (CN) is defined as a representative, republican and federal state (Art Nº 1). A Federal Government and 24 districts coexist, the latter made up of 23 provinces plus an Autonomous City (Buenos Aires), which is the Capital of the Nation.

As in most federal republics, Argentina uses a presidential system of governance with a division of powers between the National Executive, the legislative and judiciary arms of the government. The judiciary administer justice and adjudicate in the spirit and letter of the constitution. The legislative arm of government makes law for the smooth running of the country. Argentina maintains a bicameral legislative house - made up of a Chamber of Deputies and another of Senators. The Regulations that apply to companies are related to corporate, bankruptcy, labor, tax, and criminal law. The specific regulations, which regulate who is responsible for the activity of a company, are found in what is called “the company law” in its articles 59, 266, 269, 270 and 274. The legal narrative of these articles is like the existing provisions of the rest of the Latin American countries. Even when the statutory provision may be made for the existence, for example, of an executive committee made up of the same directors for the management of common businesses, or when general or special managers are appointed, the responsibility of the management body - the Board of Directors - remains unaltered or unchanged.

### **Corporate Governance in Argentina: a chronological account**

The emergence of corporate governance gathered pace in the 1990s following a raft of corporate failures around the globe (Morck, 2007). Argentina was not excluded from these discussions and for seeking an international standard to define CG’s implementation. As in many other countries, the way of implementing standards and regulation of markets was through the creation of independent national bodies and implementing or modifying regulations based on individual cases, like listed companies, and not to all Argentine companies. In Argentina, the NATIONAL SECURITIES COMMISSION (COMISIÓN NACIONAL DE VALORES, CNV) was founded as the official body in charge of the promotion, supervision, and control of

the Argentine securities markets. It is an independent entity but depends on the Secretary of Finance of the Argentine Ministry of Finance, hence political power always permeates CNV practices. As was declared in its founding declaration, CNV intention was “to **protect investors and promote the development of a transparent, inclusive and sustainable capital market that contributes to the economic and social progress of the country** (emphasis added). It was not until 70 years after the foundation of the NATIONAL SECURITIES COMMISSION (COMISIÓN NACIONAL DE VALORES, CNV, see Table 1) that the first attempt to regulate the practice of corporate governance took place in the form of a national decree (677/2001).

**Table 1 - The Argentine National Securities Commission (CNV)**

1937	The Securities Commission was established, dependent on the Central Bank of the Argentine Republic and with functions of an advisory nature.
1946	It is ratified by Law No. 13,894. Decree No. 15,353 creates the Securities Commission, made up of representatives of the Central Bank.
1968	Through Law No. 17,811, of a federal nature, the National Securities Commission was created as an organized state division, as a national independent entity of a technical nature, with jurisdiction over the entire territory of the Nation.
1969	As of January 1, Law No. 17,811 comes into force, regulating in its entirety the securities market, covering the public offering, the organization and operation of the stock exchange institutions and the actions of the Stockbrokers and other people dedicated to trading securities.
2001	The National Decree 677/2001 was promulgated. The main intention was to guarantee “transparency” and “trust”.
2012	On November 29, Law No. 26,831 on the Capital Market was enacted, repealing the two previous basic regulations, Law No. 17,811 and Decree No. 677/01, as well as other secondary provisions. The purpose of Law 26,831 was the development of the Capital Market in an equitable, efficient, and transparent manner, protecting the interests of the investing public, minimizing systemic risk and promoting healthy and free competition.
2018	On May 9, the Productive Financing Law No. 27,440 was enacted, which modernizes and completes the regulatory framework of the Argentinian capital market, providing it with instruments with a direct impact on the real economy, such as financial trusts for mortgage loans, common funds of closed investment and new instruments for SMEs.

Source: [www.cnv.org](http://www.cnv.org)

The decree had its origins in the analysis of corporate governance practices in Latin America carried out by investment banks in the United States. The study was motivated by knowing what the latest reforms in these countries had been in relation to the election of their directors, governance, and regulation for the public offering of listed companies. Trust, **transand** confidence were part of the core discourse of the decree:

*That it is necessary to ensure the full validity of the rights enshrined in article 42 of the national constitution, establishing a statute of the rights of the "financial consumer", fundamentally addressing the aspects of transparency in the field of Public Offering, and advancing in the establishment of an adequate legal framework that increases the level of protection of the saver in the capital market.*

*That the natural objectives of financial markets are to promote their own development, favor their liquidity, stability, solvency, and transparency, and create mechanisms that allow guaranteeing the efficient allocation of savings to investment.*

*That said purposes derive from the main objective of creating the "confidence" and "security" necessary to lower the cost of capital and increase the financing of companies.*

*That in recent years there have been phenomena such as the greater relative importance of the private sector in the creation of wealth, the emergence of the so-called "institutional investors" as main agents of the channeling of savings and the dissociation of the ownership of companies regarding your address.*

*That in this context, awareness has been promoted worldwide about the importance of having adequate corporate governance practices and a regulatory framework that legally enshrines principles such as "full information" "transparency", "efficiency", "protection of the investing public", "equal treatment between investors" and "protection of the stability of financial entities and intermediaries".*

*That, in this sense, the legal uncertainty created by non-transparent regimes or systems where the legal framework or its applicability are deficient, causes a distortion in the savings and investment decisions of economic agents, affecting their choice in favor of assets. liquids with less risk.*

*In this way, inadequate levels of protection "weaken" financial systems, driving savers towards safer markets. (Decree 677/2001).*

The 677/2001 Decree inspired other legal initiatives. In 2004, the Argentine Institute for the Government of Organizations (IAGO), a body created jointly by the BUSINESS FOUNDATION FOR QUALITY AND EXCELLENCE (FUNDECE) and the INSTITUTE FOR BUSINESS DEVELOPMENT (IDEA), developed the *Code of Best Corporate Governance Practices* for the Argentine Republic. This Code provided guidelines for better administration and control of companies with the aim to increase their market value. They were a set of rules aimed at generating transparency, facilitating access to the capital market, improving business management and risks, reducing transaction costs and allowing the identification and resolution of conflicts of interest. Although the original intention of the code was to be applied to companies with a public offering, its implementation was recommended to any kind of business organization.

Despite numerous attempts to standardize governance practices, it was not until 2007 that the CNV NATIONAL SECURITIES COMMISSION approved, through the Regulation RG No. 516, the list with the minimum content of the *Corporate Governance Code* (CGS). The CGS covered the key issues regarding transparency and governance that Argentinean companies must include to make their shares public. Among the most notable points were those related to the board of directors in general and its degree of independence, the relationship with shareholders and the community in general.

In 2012, the CNV in its resolution No. 606, modified the Regulation RG N. 516 and required companies to incorporate the *Code of Corporate Governance*, including in their reports financial statement analysis, together with self-evaluation of corporate governance and the degree of compliance with the standards proposed by the CNV. Companies were asked to explain the reasons in case of not compliance.

The No. 606 resolution sets out the following principles:

1. Make transparent the relationship between the issuer, the economic group that is part of it and its related parties.
2. Laying the foundations for a solid administration and supervision of the issuer.
3. Endorse an effective policy for the identification, measurement, administration and disclosure of business risk.
4. Safeguard the integrity of financial information with independent audits.
5. Respect the rights of shareholders.
6. Maintain a direct and responsible link with the community.
7. Remunerate fairly and responsibly.
8. Promote business ethics.
9. Deepen the scope of the code.

The main intention of the 606 resolution was to increase transparency of both the company and the market, with the assumption that transparency promotes healthy competition. Private consultancies started to operate in Argentina developing indices rating the "degree of good governance" of companies

(Corzo, 2016). In particular, the CENTER FOR FINANCIAL STABILITY (CEF) developed the *Transparency and Dissemination Index* (ITD) measuring quantitatively the evolution of corporate governance for each of the Argentine companies who decided to adhere to the resolution.

The initiative had an impact in the following years in a broad spectrum of Argentine organizations and management bodies. At the end of 2016, the first meeting of the Corporate Governance Working Group (GTGT) took place in Argentina, led by the director of the CNV. The main objective of the meeting was to coordinate different interest groups and the implementation and strengthening of the Corporate Principles of the OECD and the Group of Twenty (G-20). Among those who participated in the meeting were the Undersecretary Representative of the OECD and members of the Institute of Business and Public Governance (IGEP), the ARGENTINE INSTITUTE FOR THE GOVERNMENT OF ORGANIZATIONS (IAGO) and the INSTITUTE FOR BUSINESS DEVELOPMENT OF ARGENTINA (IDEA). Private consultancy firms and business research institutes were also active participants. Among others were the Business Foundation for Quality and Excellence (FUNDECE), the CHAMBER OF STOCK COMPANIES, CAPITAL MARKET ACADEMY, the PwC Chair of Governance of Organizations of the IAE BUSINESS SCHOOL, the ETHICS AND COMPLIANCE ASSOCIATION and LIDERAZGOS FOUNDATION AND RESPONSIBLE ORGANIZATIONS (FLOR).

At the end of 2016, Argentina became an associate member within the *Corporate Governance Committee* of the OECD. Under this framework, the Director of the CNV followed the economic political agenda of president Macri: to use corporate governance as an economic discourse to improve the performance and development of Argentine companies and to encourage national and foreign investment in the country. The economic agenda was dominated by the integration of Argentina into the global markets and economy and to join the OECD. In president Macri discourse, Corporate Governance was synonymous with leadership and good management practices that ultimately rely on good decision-making. Demonstrable good decision making, following president Macri conception (who was a businessman before having been elected president) would improve the capacity of Argentina for foreign investment.

At the beginning of 2017, the *Corporate Governance Working Group* had a second meeting looking at the following issues:

1. To create a culture of corporate governance and transmit its advantages and value.
2. To disseminate the principles of the OECD and other references of good international practices.
3. To update the standards according to international practices, adapting them to the Argentine reality.
4. To generate training mechanisms for directors, managers, executives, external and internal auditors.
5. To increase diversity on the boards, attract local and foreign investors.

The same year, the Minister of Finance presented to the Secretary General of the OECD, Argentina's Plan of Action during a bilateral meeting during the G20 meeting in Buenos Aires. The plan included a series of actions with active participation of OECD experts and Argentine officials to strengthen public policies and efforts to implement reforms on corporate governance, transparency, and anti-corruption policies. The main points of the reform relate to economic policies, statistics, competition, investment, federalism, public governance and modernization of the state, regional development and multilevel governance, the fight against corruption, education and skills and digital education. In 2018, Argentina received active support from the OECD in its vision of "Building consensus for equitable and sustainable development" and the corporate governance agenda looked firmly established as a government policy.

### **Argentina as an emerging country for emerging corporate governance**

We must not lose sight of the fact that corporations and companies compete with other institutions for the allocation, ownership and use of the social resources of a community. The environment in which they operate is a highly significant aspect. The context in which companies operate in emerging countries is central to understanding their reality.

Argentina does not escape these characterizations as an emerging country. In Argentina, there is no important development on this issue, not in academia or in the industry. The underdeveloped market (a capital market that is not significant in terms of volume and relevance) and stocks as relevant investment alternatives mean that good corporate governance practices and their recommendations are not

considered important. Some internal codes or standards are observed in MNC with presence in the country mainly in keeping with the expectation of their home countries.

An approximation of the difference in contexts between developed and an emerging market such as Argentina can be gleaned from five important indicators identified below:

- a) **Shareholders' interests:** In emerging countries, there is a concentration of shareholdings, generally in families or family groups compared to developed markets where shareholding is dispersed and there are sophisticated investors including institutional investors. Therefore, the central data of differentiation in this criterion is the concentration of ownership.
- b) **Independence:** The boards of directors as governing bodies are closed and internal and only represent the interests of shareholders to groups in emerging countries. Open and non-executive boards characterize corporations from core countries where the interests they represent are varied and broad belonging to different classes of investors. The key characteristic of this criterion is the dependence on management and control of share ownership.
- c) **Capital Markets:** The development of capital markets shows great differences between countries and the context regarding investments and access to capital. In emerging countries there is poor development of these markets and few takeovers, as well as little active IPOs. In fact, when companies with potential appear in these countries, they quickly carry out their IPOs in markets such as Wall Street or Nasdaq to obtain funds for their development. The defining characteristic of this criterion is the ease of access to capital.
- d) **Transparency:** This is a key aspect for the relationship of corporations with their environment. The dissemination of information in the central countries is wide and easily accessible by individuals. The key aspect is information management.
- e) **Responsibility:** The protection of minority holdings is a differential between developed and emerging countries. In the latter there is a manifest lack of protection of minority holdings. Legal certainty is the aspect that defines this criterion.

#### **Corporate Governance and the private sector**

In Argentina, there are no recognized codes of good practice as in the developed countries. The norms arise from the regulations, basically in the legal framework and in terms of the government and its organs, the laws address issues related to shareholders and their assemblies, as well as the board of directors and directors. There is no legislation about the CEO and management.

As was said, the capital market is underdeveloped and the MVA (the basic indicator of a country's level of industrialization adjusted for the size of the economy) / GDP (Gross Domestic Product) ratio in comparison to those of developed countries is not relevant. These issues are aggravated by currency instability and periodic devaluations that cause the value of companies to fluctuate constantly so local comparison patterns cannot be established.

Closed capital companies are characterized by the lack of disclosure of their financial statements and information regarding their evolution and performance. These shortcomings are the product of the lack of need to go to financial markets where knowledge of that information is essential and mandatory. At the same time, the election of board members is limited to a very small circle, generally made up of trusted family members or employees.

Publicly listed companies are regulated by the National Securities Commission, which is the body that controls and regulates the local Capital Market and, consequently, the activities of the companies that make their shares public in terms of information, transparency, control, audits, etc. Control is carried out based on the regulatory framework established for this class of companies. The integration of the governing bodies is more open to people of diverse origins. Majorities and minorities in the shareholders' meeting are respected, as well as shareholdings of different classes. The boards include minority representatives.

The control bodies in Argentina are represented by the appointment of a Syndicate - a figure that watches over the interests of the shareholders - or by the shareholders themselves, depending on the assumptions contained in the legislation. For large companies, the Trustee is replaced by a collegiate receivership or Supervisory Commission in accordance with the conditions established by law. There are no mandatory

commissions within the boards related to the control of financial statements and auditing made up of independent directors as there is from the Sarbanes Oxley Act in the United States.

### **Corporate Governance and the public sector**

In Argentina, there are companies wholly or partially owned by the state. In a brief classification, companies called "State Societies" are observed, which operate as true joint-stock companies in which the total share ownership belongs to the State. There are also Mixed Economy Societies that are made up of state entities and private entities, their operation is regulated by special laws. Interstate, binational companies or companies that are in liquidation under State intervention can also be included in this classification.

Some companies with **Majority State Participation**, which are true public limited companies, are listed on the stock market (YPF or HIPOTECARIO BANK), have private participation in the composition of the shareholder. As for capital, it is that the property and the votes correspond to the majority of 51% to be able to form the social will. As of 2018 there were 41 of these companies, in that year Administrative Decision 85/2018 of the Chief of the Cabinet of Ministers was promulgated, which is called *Good Governance Guidelines for Companies with Majority State Participation*, which establishes a set of recommended good practices for this class of companies<sup>2</sup>. This fact is a milestone because good practices include those developed by the so-called listed companies (listed companies) where the public is associated with the private in terms of parameters of efficiency, transparency, information, etc.

As for the governing bodies in the companies indicated above, they operate through representatives of the State in the case of the Shareholders' Meeting. In turn, the directors are appointed by the corresponding state agencies and are considered public officials whose conduct is judged by public ethics laws.

### **The organizational limits of CG in Argentina**

In Argentina the capital market is small, as in many of the developing countries. The use of Corporate Governance concepts usually based on the implementation for listed companies, has always been associated with companies from developed countries. However, the use and encouragement of private and SMEs to implement CG practices is growing. Many of the initiatives that emerge from the business sector are those that see benefits in their implementation.

Corporate Governance practices in companies arise as a response to providing transparency and trust to management and control groups, who on occasions would have been accused in Argentina of abuse of power to the detriment of the rest of the investors and impeding sustained development. There is a growing perception in Argentina that by implanting CGs practices, not only will the performance of the companies themselves be optimized, but also the abuses of those who run them restricted. CG practices in Argentina are usually associated with the potential reduction of inter and intra organizational corruption.

### **CG practices in Argentina: non-political mediated initiatives**

According to Andrea Grobocopatel, a member of the family business GROBOCOPATEL HERMANOS SA. founded in 1967 and devoted to the commercialization and collection of cereals and oilseeds, the main motivations to follow the path of Corporate Governance practices lie in the possibility of accessing capital or reducing its cost, achieving better operating results, giving an accurate response to market pressures, achieving a correct risk analysis through efficient supervision and control, balancing the divergent interests of shareholders (a factor of great relevance especially in family businesses) and to fundamentally contribute to the sustainable development of companies, institutions and countries. (Grobocopatel, 2010)

This testimony shows how management was in syntony with the adoption of Corporate Governance practices such as the "Public Offering Transparency Regime" sanctioned by the Executive Power through Decree 677/2001. A direct consequence took form by way of the creation of multiple formal and informal institutions devoted to measure CG in Argentinean organizations. An example was MERCO and IAGO (Argentine Institute for the Government of Organizations). that was created with the purpose of

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<sup>2</sup> BO/ 14-2-2018



“spreading the principles of corporate governance from the request of the Presidents and Directors of the Institutions, IDEA and the Business Foundation for Quality and Excellence (FUNDECE),

In September 2019, for the eighth consecutive year "Los grobo" (Grobocopatel Hnos SA) maintained the first place as the company with the best corporate reputation and image in its sector awarded by MERCO (Business Reputation Monitor Corporate). MERCO is a reputational assessment instrument that has become a benchmark monitor throughout the world. It was launched in 2000 and is based on a multi-stakeholder methodology made up of six evaluations and twenty-five sources of information. It has a presence in twelve countries: Spain, Colombia, Argentina, Chile, Ecuador, Bolivia, Brazil, Mexico, Peru, Costa Rica, Panama and in process in Portugal. It is the first audited monitor in the world, since the monitoring and verification of its production process and results is subject to an independent review by KPMG, according to the ISAE 3000 standard, which publishes its opinion for each edition. All the weighting criteria are public and, like the results of each edition, can be consulted on this website.

In the company category, for the eighth consecutive year, the multinational family company Arcor SA ranked first in the MERCO ranking in relation to social responsibility and corporate governance. Arcor SA is the most important food company in Argentina. Through sustainable management, it develops leading brands that reach people in more than 100 countries. It has commercial offices in America, Europe, and Asia and more than 40 plants in Latin America.

For MERCO, a responsible company with appropriate corporate governance is one that has:

- *Ethical Behavior*: become attached to handle issues related to ethics and written anti-corruption policies.
- *Transparency and governance*: implementation of transparency and corporate governance policies while controlling corporate governance risk.
- *Responsibility towards employees*: promoting talent management programs and managing diversity and equal opportunities for company employees.
- *Commitment to the environment and climate change*: through the measurement and management of environmental impact, the responsible purchase of raw materials and with a clear position against the phenomena associated with climate change.
- *Contribution to the community*: It is achieved through evaluation systems of the social impact and the social requirements necessary for the supply chain, as well as the development of programs with the environment.

MERCO standards for CG are defined to draw up a provisional ranking of companies. Firstly, it looks at members of a board of directors of companies with a turnover of more than USD40 million and proceeds to provisionally rank the ten most responsible companies with the best corporate governance, except for their own. The second part of the process is carried out by professional managers with CG experience who then value each of the companies in the provisional ranking from 0 to 100 regarding a set of standard criteria. This panel includes experts in Corporate Social Responsibility, financial analysts, academics, economic journalists, government, NGOs, unions, consumer associations, influencers, and social media managers, among others. This panel assessment is followed by the Evaluation of Merits by MERCO technicians who analyze the 50 main indicators of the companies in the provisional ranking. Together, this data is crossed with the information from MERCO Consumption, constituted by a sample of the population of consumers that assesses the commercial reputation of the companies ranked based on four criteria:

- *Ethics*: it is an organization that does not deceive its customers.
- *Ecological*: protect the environment.
- *Social*: is committed to social challenges.
- *Job attractiveness*: it is a company to work with.

Thus, with the cross-checking of all these variables, the Global Ranking of Companies with the Best Responsibility and Corporate Governance is elaborated.

Another initiative, replicating the successful experience of the IBGC (BRAZILIAN INSTITUTE OF CORPORATE GOVERNANCE), the most important institute of Corporate Governance in the region, is IAGO certification for directors who have satisfied the requirements relevant training and performance.

These efforts to raise awareness and disseminate corporate governance practices, beyond interference from political powers or for a few listed companies, are the result of an increased awareness of the importance of corporate governance practices. Today, a large part of the Argentine business community is aware of and makes use of CG, not only for better management, but also to contribute to their development and growth. Indeed, there is a consensus that good corporate governance practices aim for companies to be able, in addition to maximizing their profits, to exercise their functions responsibly and in compliance with rules; favoring growth and sustainable development through a set of principles that regulate the transparent behavior of companies.

Initiatives like MERCO and IAGO are however not independent from the political and ideological context that permeate most of the formal and informal organizational practices in Argentina. Recent cases such as the entry into bankruptcy of the family business VINCENTIN SAIC, are unknown in respect to CG practices. Cases like VINCENTIN SAIC show the opaque practice of CG and the damage that occurs when CG is not openly practiced. The law, regulations and recommendations for good governance practices exist but are not necessarily followed. They are in force, indeed and they do not differ too much from the rest of the Latin American countries, but their implementation is aleatory.

### **Analysis of Corporate Governance in Argentina: An Expert's Word**

Recognized Argentine experts on the subject define corporate governance as a relationship between stakeholders and the company to determine and control the strategic direction and performance of organizations. In this relationship, the government imposes the guidelines to establish the necessary order of relationships between the shareholders and the highest levels of leadership. Based on these reflections, corporate governance has a well-defined space, which is part of a triangle of relationships between the so-called stakeholders (including shareholders), the governing bodies and the management of the organization (Melendez, 2020).

Melendez has analyzed how different organizational roles interplayed when CG practices took place in Argentina.

- a) The CEO usually is the delegate of the board of directors and runs and operates the organization based on their own definition of governance. Their work is made up of governance and management characteristics at the same time. It is considered the most powerful individual in the organization for managing resources and the levers that mobilize the administration.
- b) The board in turn is the one who manages the governance structure to impose and manage power.
- c) The shareholders' meeting brings together the capital holdings and voting possibilities, it operates according to the characteristics of the shareholders.

### **Conclusion**

The previous analysis has brought the characteristics of Argentinean society in terms of its cultural, institutional arrangements, their functionality, the multiple forces that shaped companies and corporations and how these forces has affected the meaning and implementation of corporate governance in the country. We suggest that decades of enrooted organizational practices of trust and mistrust could be one of the reasons of why the successful implementation of CG in Argentina is still under construction.

The ambivalent and oscillating development of CG in Argentina has the potential to underline the difficulties of any country, which embarks on recurrent changes and crisis. Despite being a unique historical case from which to study how governance practices could be alternatively implemented or ignored, we claim that Argentina has been an under-researched context within the corporate governance literature.

Indeed, a critical account of the evolution of corporate governance in Argentina illuminates quite interesting facets that help to understand the impact of economic, political, and social vicissitudes on CG: a constant change of rules, sporadic decision making, unstable political and legal frameworks and local-

global tensions when alternating in following paradigms. All combined has the power to jeopardize the successful implementation of CG at a national level let alone for corporations.

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