

## **Corporate Governance and Transparency Scenario: An Empirical Study Of Asia**

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*CG in Asia has assumed greater limelight with the series of corporate failings and scandals, following which the markets, investors and society at large have begun to loose faith in the infallibility of these systems. This article seeks to portray an overview of the CG practices and transparency scenario prevalent in the Asia region, duly supported by empirical data. No doubt, several initiatives have been undertaken by various national and international agencies and CG scenario have considerably improved, but much work still remains to be done and the ethos of CG culture has yet to sink in fully. Most of the Asian countries should be proud of what they have achieved so far in CG practices but, of course, much more still needs to be done. To conclude, CG in Asia remains a work-in-progress requiring some rethinking and effective implementation of their rules and regulations.*

### **1. Introduction:**

Corporate Governance (CG) is the system of structural, procedural and cultural safeguards designed to ensure that a company is run in the long-term interests of its shareholders, as well as, other stakeholders. This alignment requires a 'commitment' to sustained interactions between a company and its principal stakeholders. The separation of ownership and control in corporate enterprises brings about "agency" problem in which management may take actions that compromise the interests of its shareholders. The primary CG mechanism, in fact, is the board of directors, and its primary purpose is to combat the familiar 'agency' problem—the tendency and ability of senior managers to put their personal interests above those of the company's shareholders and stakeholders. It is the responsibility of the board of directors to ensure 'good' CG. This involves a set of relationships between the management of a corporation, its board, its shareholders and other relevant stakeholders. Accordingly, the board must agree on the corporation's purpose (what it is for), its ethical values (what it stands for), and the strategy to achieve its purpose. In the practical sense, CG involves the "nuts and bolts" of how corporations should fulfill their responsibilities to their shareholders and other stakeholders.

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“Good” CG requires that the board must govern the corporation with integrity and enterprise in a manner, which entrenches and enhances the ‘license’ it has to operate. This license is not only regulatory but embraces the corporation’s interaction with its shareholders and other stakeholders, such as, the communities in which it operates, bankers, other suppliers of finance and credit, customers, the media and public opinion makers and pressure groups. While the board is accountable to the owners of the corporation for achieving the corporate objective, its conduct in regard to factors, such as business ethics and the environment, for example, may have an impact on legitimate societal interests (stakeholders) and thereby influence the reputation and long-term interests of the business enterprise. However, an ideal governance structure should give management sufficient room to exercise their talent, while simultaneously controlling their behavior.

The principal characteristics of effective CG are transparency (disclosure of relevant financial and operational information and internal processes of management oversight and control); protection and enforceability of the rights and prerogatives of all shareholders; and directors capable of independently approving the corporation’s strategy and major business plans and decisions, and of independently hiring management, monitoring management’s performance and integrity, and replacing management when necessary. Similarly, the Asian Development Bank defines ‘good governance’ as based on four pillars: transparency, accountability, predictability and participation, recognizing that “their application must be country-specific and solidly grounded in the economic, social and administrative capacity realities of the country”.

## **2. Philosophy of CG and Convergence Efforts**

“CG comprehends that structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members, corporate managers designed to ‘best’ foster the competitive performance required to achieve the corporation’s primary objective,” observes Organization for Economic Cooperation and Development (OECD). CG is concerned with wider accountability and responsibility of the directors towards ‘key’ stakeholders of the corporations, viz., employees, consumers, suppliers, creditors and the wider community. Oman and Blume (2005) have aptly pointed out, “Corporations around the world are realizing that better CG adds considerable value to their operational performance. The poor quality of local systems of CG lies at the heart of one of the greatest challenges facing most countries in the developing world.”

The purpose of CG is to build and strengthen accountability, credibility, transparency, integrity and trust. Under CG system, effective checks and

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balances are exercised by the followings: shareholders voting system; appointment of independent directors; establishment of nomination, audit, ethics, CG and remuneration committees; using internal audit; and appointment of an effective and powerful chairman and CEO. CG practiced by some corporations, unfortunately, have turned out to be an annual 'ritual,' involving "check-box" of items around legislative requirements (e.g., provisions for board composition in terms of executive and non-executive directors, setting up independent audit and CG committees, CEO/CFO certification of financial statements, legal compliance monitoring, internal controls, etc.). Realizing the need for 'good' governance, corporations from all over the world must attempt to 'evolve' gradually from the traditional "compliance" approach to a "conscience" one. There has been recognition of the need to 'balance' interests of not just shareholders but different stakeholders, who are equally important for the health of a company.

Undoubtedly, CG has assumed greater limelight with the series of corporate failings, across the globe, following which the markets, the investors and the society at large, have begun to lose faith in the infallibility of these systems. For instance, Badawi (2005) portrays the situation as: "The recent wave of corporate fraudulent financial reporting has prompted global actions for reforms in CG and financial reporting, by governments and the accounting & auditing standard-setting bodies in the U.S. and internationally (including the European Union, the International Federation of Accountants, the OECD, and others) in order to restore investor confidence in financial reporting, the accounting profession and global financial markets."

It is a matter of great satisfaction that moves are afoot globally to promote 'convergence' of good CG practices. "Codes on Corporate Governance" issued internationally by the OECD, World Bank, Australia, South Africa, France, Common Wealth Secretariat, etc. are all promoting a "convergence of CG practices". The International Accounting Standards, with linkages to the International Organization of Securities Commission (IOSCO), which represents most of the world's regulating stock exchanges, are pulling towards a 'harmonization' of desirable CG practices. Yet the sober truth is that CG practices in various countries still remain divergent, despite all these major initiatives for convergence. Despite some incidences of abuse in the UK, controls on CG are better developed than in other European countries. This is because companies listed in Britain are subject to the "Combined Code on Corporate Governance," and also the Directors' Remuneration Report Regulations, passed in 2002. No equivalent level of disclosure, however, is required in Germany, Spain, Austria or Belgium, and it seems that the British regime has formed a blueprint for new European Commission recommendations. The Commission is keen to increase standards of CG across all member states and its recent recommendations focus on directors' remuneration and the role of non-executive directors.

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The Commonwealth Association for Corporate Governance (CACG), assisted by the Commonwealth Secretariat and the Commonwealth Fund for Technical Co-operation, has undertaken a pioneering role in the field of CG. In fact, extensive work has already been undertaken by the OECD, of which a number of commonwealth countries are also members. In preparing the CACG Guidelines, however, reference was made to the OECD "Principles of Corporate Governance". Moreover, the G-7 countries also endorsed it as an acceptable level of CG standards with universal application, and which has formed the basis of the joint World Bank/OECD initiative to form the 'Global Corporate Governance Forum.' The Commonwealth is a participant in this initiative too.

There have been several leading CG initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), which came up with the first voluntary code of CG in 1998. The second was by the Securities and Exchange Board of India (SEBI), now enshrined as Clause 49 of the listing agreement. The Naresh Chandra Committee and Narayana Murthy Committee reports followed it in 2002. Based on some of the recommendation of these committees, SEBI revised Clause 49 of the listing agreement in August 2003. The Department of Company Affairs had set up "National Foundation for Corporate Governance" ([www.nfcgindia.org](http://www.nfcgindia.org)) in partnership with CII, ICAI, and ICSI. Ultimately, CG in any country can be improved by making corporate operations more transparent, without sacrificing business strategy and secrets, which are absolutely necessary for success in the 'competitive' market place (Greer et. al., 2006).

### **3. Literature Review**

CG has attracted considerable attention over the past decades, leading to recommended codes of practice, conceptual models, and empirical studies. A growing number of empirical studies, mostly conducted in the Western countries, have demonstrated that good CG contributes to better investor protection (la Porta et al., 2000), lower costs of capital (Ashbaugh-Skaife et al., 2004), reduced earnings manipulations (Xie et al., 2001), increased company market value (Black et al., 2004; Brown and Caylor, 2004), improved stock returns (Gompers et al., 2003; Bauer et al., 2003), and even economic growth (Maher and Anderson, 1999). Thus, strong CG is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. Thus, studies of firms in India, as well as, abroad have shown that both markets and investors take notice of well-managed companies, respond positively to them, and reward such companies by offering higher share price. However, a common feature of such companies is that they have systems in place, which allow sufficient freedom to the boards to take decisions towards the progress of their companies, to innovate, while remaining within a framework of effective accountability. In other words, they have system of 'good' CG. Unfortunately, no study has been conducted so far, which attempts to explore CG and transparency scenarios prevalent in Asia. An empirical study will stimulate the

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corporate sector in Asia region/markets to make efforts to meet both ethical and regulatory requirements at the same time; thus, improving the CG and transparency scenario, and fill the big gap.

In fact, Asia is a very diverse region and CG received much attention in these countries after its financial crisis. For instance, Fan and Wong (2002) reported that accounting transparency of firms in seven Asian economies is generally low. Bae and Jeong (2003) report similar evidence for Korean firms. Ball et al. (2005) examined earnings transparency of listed companies in Hong Kong, Malaysia, Singapore and Thailand, economies that have relatively high accounting standards. They concluded that “the reported earnings generally lack transparency and that adopting International Accounting Standards alone does not ensure high transparency.” However, “Corporate Governance Watch,” a joint study undertaken by independent stockbroker CLSA Asia Pacific Markets, and the Asian Corporate Governance Association (ACGA) offers the most comprehensive assessment of CG standards within the eleven countries (viz., Hong Kong, Singapore, India, Taiwan, Japan, South Korea, Malaysia, Thailand, China, Philippines and Indonesia) comprising the Asia region. Probably, it is impossible for any one individual to do extensive research and survey of CG practices in Asian countries. In order to provide empirical data support in the form of CG scenario information, therefore, we have utilized in the present study the relevant information and factual data made available through their publications and media reports.

### **4. Research Methodology**

The importance of using ‘ethical’ values in business is underlined by the increasing emphasis placed on CG in the global village. Recently, CG has been very high on the agenda for the Asian regulators, with most markets having introduced comprehensive regulations in order to improve “transparency”. In order to provide a glimpse of the CG and transparency scenario prevalent in the Asian countries and to support our contention—major problem in the Asian countries is how to improve transparency—we have extensively utilized the secondary and published sources of data relating to CG practices, transparency, and reforms undertaken in the Asian countries. Mostly, the data were collected through Internet search engine like Google and ProQuest and Ebscohost database. The online papers were downloaded from the Internet Web sites and some data were obtained directly from ACGA office (Hong Kong), conference presentations, media reports and Corporate Governance Watch studies.

### **5. Significance and Contribution of the Study**

CG is about commitment to values, ethical business conduct, transparency, and makes a distinction between personal and corporate funds in the management of a company. Good CG and ethical business practices are no longer optional niceties—they are gradually becoming part of the laws. Undoubtedly, having a

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“Code of Ethics” is considered to be good for improving CG. Each company, in fact, needs to develop its own unique code of ethics, based on the ‘core’ values of the business.

The Asian financial crisis of 1997-99, and the more recent corporate scandals have illustrated the importance of effective CG systems and the linkage to business ethics throughout the world. They have also shown that no country has a perfect and full-proof CG system, and that in the international context of 21<sup>st</sup> century the ideal system is most likely to be a ‘holistic’ combination of several existing successful systems. Undoubtedly, CG practices can be considerably improved by applying ethical framework while making decisions and voluntarily following CG Code or best practices. Thus, the focus should be, in the long-term, how to improve operational, decision-making and corporate reporting transparency.

### **6. Corporate Governance Scenario in the Asian Countries**

CG has received much attention in recent years, partly due to the “financial crisis” in the Asia. In fact, Asia is a very diverse region in terms of levels of economic development and institutional regimes. There are commonalities across the economies; however, most importantly the prevalence of family-ownership and relationship-based transactions. The CG work on Asia so far shows that the combination of ownership structure and property rights system (law and enforcement) fundamentally delineates the incentive, policy and performance of managers and their firms. While Asia has some ‘specific’ CG issues, there are many CG issues in Asia ‘generic’ to other countries, most importantly the role of family ownership concentration and the degree of minority rights protection. Conventional CG mechanisms (takeovers and board of directors) are not strong enough to relieve the agency problems in Asia. Firms do employ other mechanisms to mitigate their agency problems (such as, employing reputable auditors), but even these have only limited effectiveness. The overall low transparency of Asian corporations relates to these agency problems, with the prevalence of connection-based transactions, increasing desires among all owners and investors to protect rents (with rents often arising from government actions) including a large safety net provided to the financial sector. While work on Asia has clarified some CG issues, many important issues are still unknown.

No doubt, CG guidelines and/or codes of best practice arise in the context of, and are affected by, differing national frameworks of law, regulation and stock exchange listing rules, and differing societal values. Although boards of directors provide an important internal mechanism for holding management accountable, effective CG is supported by and dependent on the market for corporate control, securities regulation, company law, accounting and auditing standards, bankruptcy laws, and judicial enforcements. Therefore, to understand one nation’s CG practices in relation to another’s, one must understand not only the “best practice” documents but also the underlying legal and enforcement

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framework. An attempt will be made here to survey the CG scenario in the Asian countries.

The financial crisis that overran much of the Asia in the late 1990s prompted most of the countries (joined later by India) to give improved CG a priority. “CG Watch,” an annual collaborative study of the CG landscape of the Asian markets undertaken by independent stockbroker CLSA Asia Pacific Markets and the Asian Corporate Governance Association (ACGA) offers the most comprehensive assessment of CG standards, and progress for both regulators and companies within the Asia region. For the purpose of present paper, we are utilizing primarily the data made available by the ACGA through their various studies and media reports, from time to time. ACGA introduced a detailed survey and scoring methodology in 2004, made the methodology more rigorous in 2005 and enhanced the methodology further in 2007. However, no survey was done in 2006. According to Jamie Allen, the Secretary-General, ACGA: “Under each of these categories, we assess the companies on issues that are key to constituting good CG. Our CG score is based on how we rate a company on 54 issues under six main aspects, each with a 15% weighting that take to constitute the concept of CG, to which we add the C&G score with a 10% weighting.” The CG scores for the Asian markets, based on studies done by ACGA, during 2003-2007 are shown in **Table-1** below.

**Table-1: Corporate Governance Watch Scores**

<b>Market</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2007</b>
1. Hong Kong	73	67	69	67
2. Singapore	77	75	70	65
3. India	66	62	61	56
4. Taiwan	58	55	52	54
5. Japan	--	--	--	51
6. South Korea	55	58	50	49
7. Malaysia	55	60	56	49
8. Thailand	46	53	50	47
9. China	43	48	44	45
10. Philippines	37	50	48	41
11. Indonesia	32	40	37	37

(Source: Compiled by the author based on various media and CG Watch reports issued by ACGA)

As per the ACGA latest study titled as “CG Watch 2007,” CG scores for 582 companies are based on seven key categories. Six of the key categories (viz., discipline, transparency, independence, accountability, responsibility and fairness) are unchanged from previous year’s scores, with the seventh category in this year being the score for the “clean & green” survey that replaced the

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previous social responsibility category. This year, ACGA team has played a bigger role in the scoring, building up the country criteria to 87 issues under five categories: CG rules and practices, enforcement, political and regulatory environment, accounting and auditing standards, as well as overall CG culture. **Table-2** gives a breakdown of the average CG scores of the companies in each country by scores for each of the seven categories. Country ratings are trending downwards not because of any decline in their CG standards or less efforts on the part of regulators. Rather, absolute CG scores have fallen for most markets due to the changes made in the methodology and tightening of ranking criteria. Overall, CG scores show slightly better average improvement for companies in India, China and Indonesia, while a slight deterioration in the average score in Taiwan. Japan (a new entrant in 2007 study) has a higher average CG score for its firms than the rest of the sample. To sum up, the more details one looks up, the less one finds: country scores have generally declined. Hong Kong and Singapore top the 11 markets surveyed by ACGA; Indonesia and the Philippines at the bottom. Furthermore, Jamie Allen (2007) very optimistically observes: "It is encouraging that most markets in 2007 scored higher for "CG Culture," indicating that the level of CG-related activity among companies, investors, CG associations, academics, director institutes and other professional bodies is increasing. This should provide a foundation for continued improvements in the years to come."

**Table-2: Average CG Category Scores by Asian Countries in 2007**

(%)	Discipline	Transparency	Independence	Accountability	Responsibility	Fairness	Clean & Green	Overall CG
Japan	55.3	89.3	42.3	27.7	76.0	72.1	45.0	58.9
Thailand	51.3	92.9	62.5	51.1	32.6	66.9	31.8	56.7
Hong Kong	56.3	79.7	47.3	56.8	57.2	69.2	12.0	56.2
Taiwan	68.4	57.2	42.6	51.9	62.6	59.9	28.9	54.3
India	65.4	83.8	43.1	43.1	41.2	49.2	27.5	51.6
Malaysia	63.4	85.3	57.6	37.1	44.4	46.4	13.2	51.4
Singapore	57.6	84.2	72.7	27.2	50.6	36.3	10.6	50.3
Korea	50.3	71.9	42.8	49.2	42.3	59.4	23.4	49.7
Philippines	39.1	65.1	63.1	35.7	26.7	60.4	20.5	45.5
China	45.5	66.6	45.8	44.6	28.6	45.7	7.9	42.3
Indonesia	59.6	44.9	49.1	38.8	21.0	39.6	9.8	38.9
<b>Average</b>	<b>55.7</b>	<b>74.6</b>	<b>51.7</b>	<b>42.1</b>	<b>43.9</b>	<b>55.0</b>	<b>21.0</b>	<b>50.5</b>

(Source: CLSA Asia-Pacific Markets, "CG Watch 2007," page 38. Courtesy of ACGA.)

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Table-3 shows that in Singapore, Malaysia, Indonesia and Thailand regulators require companies to report their annual results within two months of the fiscal year-end. Similarly, quarterly reporting is mandatory in most Asian markets (except Hong Kong) where strong resistance to change appears to persist among many of the territory's large companies. All markets (except Taiwan and the Philippines) require the disclosure of stakes (5% or more) in companies, and some markets also require the disclosure of individual directors' compensation. Most markets also insist on the disclosure of audit and non-audit fees paid to external auditors. Other areas of improvement include enforcement, where there is evidence in most markets of increased resources being applied in this area. However, most markets have improved their accounting and auditing standards largely in line with international standards, although there are discrepancies in Taiwan, China and Indonesia. Auditing standards are pretty much inline with international standards, other than in China. Singapore has already taken the big lead in its efforts to regulate the accounting profession. Matthias, Lawrence and Wilson (2005) have portrayed pessimistic scenario: "Securities regulation in many markets has been updated and strengthened, especially in the area of dealings in securities by directors and related-party transactions. However, we do not see the legal system allowing minority shareholders cost-effective access to courts in Hong Kong, India, Malaysia, the Philippines, Thailand or Indonesia." Nowadays, agreement is growing at least in principle on what 'good' governance entails, and most countries in the region have adopted 'explicit' governance codes.

**Table-3: Asian Governance Regimes**

Country* Ranking Criteria	China	Hong	India	Indone	Korea	Malaysi	Philippi	Singap	Taiwan	Thaian
<b>RULES AND REGULATIONS</b>										
Most companies report their annual results within 2 months?	N	N	N	Y	N	Y	N	Y	N	Y
Have reporting deadlines been shortened in the past 3 years?	N	N	Y	Y	N	Y	N	Y	N	S
Is quarterly reporting mandatory?	S	N	Y	Y	Y	Y	Y	Y	S	Y
Do securities laws require disclosure of ownership stakes above 5%?	Y	Y	Y	S	Y	Y	N	Y	N	Y
Do securities laws require prompt disclosure of share transactions by directors and controlling shareholders?	Y	Y	Y	N	Y	Y	Y	Y	S	Y
Are class-action lawsuits permitted?	S	N	N	N	Y	N	N	N	S	N
Is voting by poll mandatory for resolutions at AGMs?	N	S	N	N	N	N	N	N	S	N
Can shareholders easily remove a director who	S	S	N	S	N	S	S	Y	Y	N

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has been convicted of fraud or other serious corporate crimes?										
Will share option expensing become mandatory over the next 10 month?	N	Y	S	S	N	N	Y	Y	S	N
<b>ENFORCEMENT</b>										
Is there an independent commission against corruption (or its equivalent) that is seen to be effective in taking public and private sector companies?	N	Y	S	N	S	S	N	Y	N	N
<b>POLITICAL AND REGULATORY ENVIRONMENT</b>										
Is the statutory regulator (i. e., securities commission) autonomous of government (not part of the Finance Ministry)?	S	Y	S	N	S	S	S	S	S	S
<b>ACCOUNTING AND AUDITING</b>										
Do the rules require disclosure of consolidated accounts?	Y	Y	Y	Y	Y	Y	Y	Y	S	Y
Do the rules require segment reporting?	Y	Y	Y	S	Y	Y	Y	Y	S	Y
Do the rules require disclosure of audit and non-audit fees paid to the external auditor?	Y	Y	Y	N	Y	Y	S	S	Y	Y
Do the rules require disclosure of connected transactions?	Y	Y	Y	Y	Y	Y	S	Y	Y	Y
Does the government or the accounting regulator have a policy of following international standards on auditing?	Y	Y	S	S	S	Y	Y	Y	S	Y
<b>INSTITUTIONAL MECHANISMS AND CORPORATE CULTURE</b>										
Are institutional investors engaged in promoting better corporate governance practices?	N	S	S	N	S	S	N	S	S	S
Are any retail investors engaged in promoting better corporate governance practices?	N	Y	S	N	Y	S	N	Y	N	N
Have retail investors formed their own shareholder activist organization?	N	N	Y	S	Y	S	N	Y	N	N

[\*Japan was not covered in this survey. Keys: Y = Yes, N = No, S = Somewhat]  
 (Source: CLSA Asia-Pacific Markets: Asian Corporate Governance Association, "CG Watch 2005")

There is continued reluctance among many Asian markets not to shorten their annual reporting deadlines, especially in Hong Kong, Korea, Taiwan and Indonesia. Only South Korea has introduced a comprehensive class-action litigation to assist investors to fight securities violations. China and Taiwan already have systems that allow a degree of class action, and Thailand is having a bill under consideration. Unfortunately, no market has yet introduced mandatory "voting by poll," rather than a simple "show of hands," for all resolutions at shareholders meetings. Hong Kong and Taiwan, however, are rare examples of markets that require voting by poll for some major resolutions. Still,

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very few Asian markets require directors' remuneration to be disclosed on a named, individual basis. Most markets permits disclosure to be made in aggregate (or by way of bands). Similarly, independent board committees (except audit committees) have not found strong support among regulators and no market makes it easy for minority shareholders to nominate independent directors. As Wong and So (2005) states, "Worryingly, only Singapore, Taiwan and, to a lesser degree, South Korea, have regulations that make it easy to remove directors convicted of fraud or other serious corporate crimes." South Korea now requires the largest conglomerates (or *chaebols*) to issue "combined statements", including all companies under their control, regardless of whether they have a direct equity interest. The independence of external auditors is being boosted too. In 2002, South Korea's Securities and Futures Commission took the unprecedented step of punishing the local affiliate of a global accounting firm for negligence by reducing the number of companies, it could serve as external auditor.

According to Rajesh Panjwani (2005), ACGA CG expert, "The country CG score for India for 2005 was 6.2, or third in the region after Singapore (7.5) and Hong Kong (6.7), as shown in **Table-4**. While India scored over most other Asian markets in the areas of rules & regulations, and their enforcement, it scored lower than most on adoption of international auditing standards." However, Malaysia improved its ranking by two places as a result of improved accounting standards, better enforcement, and higher score for its political and regulatory environment, while Philippines marginally leapfrogged China due mainly to its higher score for accounting and auditing. Indonesia unfortunately remains firmly rooted at the bottom. To sum up, Leahy (2004) concludes, "Securities laws and listing requirements of stock exchanges have been strengthened, regulatory authorities have enhanced powers, and the media are becoming inquisitive and probing. However, the institutions needed to ensure good governance (viz., judicial systems, capital markets, long-term institutional investors that can push for better governance) continues to be underdeveloped in most of these countries."

**Table-4: Markets Ranked by Corporate Governance in Asia**

Markets	Rules & Regulations (15%)	Enforcement (25%)	Political & Regulatory (20%)	IGAAP (20%)	CG Culture (20%)	Country Score (2005)	Country Score (2004)
Singapore	7.9	6.5	8.1	9.5	5.8	7.5	7.7
HongKong	6.6	5.8	7.5	9.0	4.6	6.7	7.3
India	6.6	5.8	6.3	7.5	5.0	6.2	6.6
Malaysia	7.1	5.0	5.0	9.0	4.6	6.0	5.5
Korea	6.1	5.0	5.0	8.0	5.0	5.8	5.5

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Taiwan	6.3	4.6	6.3	7.0	3.5	5.5	5.8
Thailand	6.1	3.8	5.0	8.5	3.5	5.3	4.6
Philippines	5.8	3.1	5.0	8.5	3.1	5.0	3.7
China	5.3	4.2	5.0	7.5	2.3	4.8	4.3
Indonesia	5.3	2.7	3.8	6.0	2.7	4.0	3.2

(Source: CLSA Asia Pacific Markets & Asian Corporate Governance Association, "CG Watch 2005," p 8)

New forms of CG behavior will undoubtedly take considerable time to become ingrained in the thinking and culture of more and more companies. Governments, corporate leaders, investors, and regulators in most of the Asian countries do realize that CG practices would not change overnight, so patience is needed. Getting companies to comply with CG rules across Asia is a daunting task requiring greater transparency and better enforcement, not to mention a cultural upheaval in boardrooms. But given the vast amount of differences in ownership structures, business practices and enforcement capabilities, merely adopting CG requirements *en masse* from the U.S. or Europe would be a foolish mistake. Asian governments should rank their reforms, from time to time, in order of priority and tailor them to the country's specific needs. Ensuring that local laws and CG codes are consistent with the OECD "Principles of CG," I personally feel would be a good starting point. In this context, Witherell (2004) very appropriately pointed out: "Policy makers, investors, corporations and stakeholders, worldwide have used these principles to tackle a broad set of relevant issues common to all, such as, the need for transparent reporting, having informed shareholders, and accountable boards of directors." However, we are of the firm opinion that it is better to enforce 'basic' reforms vigorously rather than to adopt requirements that would go totally unheeded.

Since CG is an evolving concept in most parts of Asia, raising awareness is vital to any reform efforts to succeed. Region-wide organizations, such as the Asian Corporate Governance Association, have been formed to promote understanding, sharing country-specific experiences & problems, and stimulating corporate reforms in the right direction. As Barton and Coomers (2005) observed: "Several regional groups, including CLSA Emerging Markets (a regional brokerage firm), Thai Rating and Information Services, and India's ICRA, to name a few, publicly rate the governance practices of listed companies." In addition, we have several national and international organizations (viz., World Council for Corporate Governance, Global Corporate Governance Forum, World Bank's Corporate Governance and International Finance Corporation, OECD's Corporate Governance, National Foundation For Corporate Governance, Commonwealth Association for Corporate Governance, etc.) which are sharing their country-specific rich experiences, and providing guidance and impetus for improvements in the sphere of CG. The CACG Guidelines have been structured on a basis complimentary to the OECD Principles of Corporate Governance.

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Over the past few years, a range of initiatives—public and private—have been launched with a view to improving CG and ethics in Asia. But it is clear that CFOs consider many of these measures to be works in progress, requiring further development to be truly effective. For example, the Malaysian Code of Corporate Governance, first introduced in March 2000, has been a success in ensuring a high level of compliance with the CG principles and best practices (CG Survey Report 2004). In 2004, the government established the Malaysian Institute of Integrity, whose role is to facilitate and execute the National Integrity Plan in both the private and public sectors. Whistle-blowing laws have also been introduced across every sector. The Securities Laws were amended in 2005 to include whistle-blowing provisions for both offices of the companies and external auditors. The Companies Commission of Malaysia is also looking at such provisions.

Not to be outdone, Singapore's government launched its Council on Corporate Disclosure and Governance in 2002, to prescribe accounting standards and strengthen the existing framework for reporting practices. And in November 2004 the Hong Kong stock exchange published a final report on its new Code on CG Practices, along with a new set of rules requiring issuers to include a 'CG Report' in their annual reports. Private efforts include the KPMG-backed HK Audit Committee Institute, which opened at the end of 2002 to serve as a resource for audit committees and senior management, and groups such as the Minority Shareholders Watchdog Group in Malaysia. Published guidance and standards, such as those issued by COSO, are influential too. COSO is a voluntary private sector organization, founded in 1985 by professional bodies in the US that promotes better financial reporting through business ethics, effective internal controls, and corporate governance.

## **7. Transparency Scenario in the Asian Countries**

Long renowned for their opaque business practices, Asia's corporations are undergoing a dramatic transformation on the CG front. One of the major pillar of 'good' CG is "transparency" (projected through a code of governance), which incorporates a system of checks and balances between key players—board of directors, senior level of management, auditors and other stakeholders. As Islam (2006) rightfully observes: "Transparency requires enforcement of "right to information"—nature, timeliness, and integrity of the information produced at each level of interface." All this can succeed when the responsibilities of each segment of the corporate entity, and their interface is clearly defined and understood by all. If CG is concerned with better ethics and principles, it is only natural that the focus should be on 'increasing' transparency. In fact, transparency is measured by the ability of outsiders to assess true position of a company—availability of firm specific information to those outside publicly traded firms. To sum up, key components of transparency on the CG front comprises of the followings:

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- Timely release of Annual Report
- Timely release of semi-annual financial announcements
- Timely release of quarterly results
- Prompt disclosure of results with no leakage ahead of announcement.
- Clear and informative results disclosure
- Accounts presented according to international GAAP
- Prompt disclosure of market-sensitive information
- Accessibility of investors/analysts to senior management
- Websites where announcements updated promptly
- Sufficient disclosure of any dilutive instruments
- Waivers applied on disclosure rules for the market

It is encouraging that most Asian markets have scored higher for “CG Culture and IGAAP”, indicating that the level of CG-related activities among companies, investors, corporate governance associations, academics, director institutes, accounting bodies and other professional bodies is increasing. This should provide a foundation for continued, albeit gradual, improvements in the years to come. **Table-5** highlights the transparency scenario (accounting and auditing framework) prevalent in the Asian countries.

**Table-5: Transparency Scenario in Asia: Accounting and Auditing Frameworks**

	<b>International Generally Accepted Accounting Principles (IGAAP)</b>	<b>China</b>	<b>Hong Kong</b>	<b>India</b>	<b>Indonesia</b>	<b>Japan</b>	<b>Korea</b>	<b>Malaysia</b>	<b>Philippine</b>	<b>Singapor</b>	<b>Thailand</b>	<b>Taiwan</b>
<b>1</b>	Does the government or the accounting regulator have a policy of following IAS/IFRS accounting standards?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>2</b>	Are local accounting rules largely in line with the international standards?	L	Y	L	S	L	S	L	Y	Y	L	L
<b>3</b>	Are accounting practices among large listed companies in line with international best practices?	S	Y	L	S	Y	L	L	S	Y	L	L
<b>4</b>	Are accounting practices among small and medium sized listed companies in line with international best practices?	M	S	M	M	S	M	M	M	L	S	S
<b>5</b>	Do the rules require disclosure of consolidated accounts?	Y	Y	Y	Y	Y	M	Y	Y	Y	Y	L
<b>6</b>	Do the rules require segment reporting?	Y	Y	Y	L	S	L	Y	Y	Y	Y	Y
<b>7</b>	Is disclosure of audit and non-audit fees paid to the external auditor required?	Y	Y	Y	N	N	Y	Y	S	S	Y	S
<b>8</b>	Does the government or the accounting regulator have a policy of following international standards on auditing?	Y	Y	Y	Y	Y	L	Y	Y	Y	Y	Y

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9	Are local auditing rules in line with international standards?	L	Y	L	S	L	L	Y	Y	Y	L	L
10	Are auditing practices among large listed companies in line with international best practices?	L	Y	L	L	L	L	L	L	Y	L	Y
11	Are auditing practices among small and medium sized listed companies in line with international best practices?	M	L	M	S	S	M	M	S	S	M	S
12	Is the government or the accounting regulator actively implementing new international best practices on the independence of external auditors? (e.g., by introducing limits on the non-audit work that external auditors can do; requiring for audit-partner rotation; whistleblower protection for auditors; etc.)	S	M	S	S	S	Y	Y	S	Y	S	Y
13	Must the CEO, CFO or directors sign and certify a company's annual accounts?	Y	L	Y	Y	Y	Y	Y	Y	L	Y	Y
14	Is the government strengthening the regulation of the accounting profession? (e.g., by setting up an independent oversight board)	M	M	M	S	S	M	N	M	L	M	N
15	Is the expensing of share-based payments mandatory?	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N

**[Keys:** Y = Yes (+ 1 point); L= Largely (+ 0.75 points); N = No (+ 0 points); S = Somewhat (+ 0.5 points);

M = Marginally (+ 0.25 points); X = Data unavailable (+ 0 point)].

(Source: Asian Corporate Governance Association, "CG Watch 2007," page 158, courtesy of ACGA)

Another research study undertaken by JP Morgan (2005) highlights just how varied Asian markets are in timeliness of their financial reporting. They analysed 172 large and liquid Asian companies in order to calculate 'average' number of days taken between close of books and reporting variety of data, including quarterly, semi-annual, and consolidated annual results (see **Table-6**). "Surprisingly, Hong Kong companies fared worse than their Asian counterparts in the reporting of 'interim' results—they took an average of 66 days between book close and reporting. For consolidated annual reports, Hong Kong companies were fourth slowest with an average of 97 days (only Indonesian, Korean and Taiwanese firms taking more time 132, 100, 114 days, respectively)." While Hong Kong companies did score extremely well in quarterly reporting (18 days against international average of 35 days), the sample size was extremely small (only 3 companies) because quarterly reporting is not mandatory. It is a matter of great pride that some Indian companies (like Infosys Technologies and Hughes Software Systems) stand out for being much faster (25 days) at quarterly

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reporting, while those in Taiwan (30 days) and Thailand (31 days) also do well. But when it comes to ‘consolidated’ annual reports, only one country (Australia with 63 days) comes close to the international average of 59 days. Thai companies lead the Asian pack at just 71 days, while Singapore and Indian firms report after an average of 83 and 84 days, respectively. Unfortunately, Indonesian companies give investors the longest wait—132 days. Further, Morgan study singled out certain Asian companies (viz., Infosys Technologies and Hughes Software from India, TSMC from Taiwan, and ST Engineering from Singapore) for exceeding required regulatory standards and taking CG very seriously. Looking ahead, reporting deadlines are likely to shorten in Asia. Ramaswamy (2005) adds here: “Under the US Sarbanes-Oxley Act, 2002 the SEC will cut filing periods in phases over 2003-06. The deadline for annual reports, for example, will be cut from the original 90 days to just 60 days for fiscal years ending on or after December 15, 2006. It can be easily anticipated that these new requirements will raise the bar on reporting standards and will put pressures on regulators in Asia to force improvements soon.”

**Table-6: Average Days between Close of Books and Reporting**

<b>Country</b>	<b>Quarterly</b>	<b>Semi-annual</b>	<b>Annual report (consolidated)</b>
Australia	20*	51	63
China	32*	60	90
Hong Kong	18*	66	97
India	25	25	84
Indonesia	48	58	132
Korea	37	37	100
Malaysia	57	57	87
Philippines	49*	49	86
Singapore	42	40	83
Taiwan	30	52	114
Thailand	31	31	71
<b>International Average #</b>	<b>35</b>	<b>N/a</b>	<b>59</b>

\* Only 7 or fewer companies report quarterly in firms sampled.

# Comprises 8 selected US & European blue-chips.

(Source: JP Morgan estimates, as reported in News Briefs Q 3, 2005-6)

Melendy and Huefner (2007) have recently advocated the constitution of “Compliance Committees” to improve CG transparency scenario. Without greater transparency in CG, laws and governance codes will do little to build investors’ confidence in the long-run. Notwithstanding recent reforms, accounting standards in many Asian countries remain weak—enough trained professionals are not available (with an in-depth understanding of local & international accounting standards), and accounting self-regulatory organizations are lax in enforcements (Parker, 2007). As Choi (et al., 2007) remarks: “Disclosure requirements and auditing practices, however, are improving slowly since national financial

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reporting standards are gradually being “harmonized” with international standards. The sober truth is that CG practices in various countries still remain divergent despite major initiatives for convergence.” **Table-7** highlights the divergent CG standards being followed, providing an indication of degree of CG transparency, in the Asian countries. While appreciable efforts have already been made to improve transparency and reporting of financial statements, much needs to be done with respect to designing a prudent code of business conduct and ethics that is well accepted by all employees/organizations and implemented across the Asian continent.

**Table-7: Disparate Standards—Reflection of Transparency**

Question	China	Hong Kong	India	Indonesia	Korea	Malaysia	Philippine	Singapore	Taiwan	Thailand
Do companies report annual results in 60 days?	M	M	Y	S	M	S	N	Y	M	Y
Quarterly reporting mandatory and adequate?	S	N	S	Y	S	Y	S	Y	S	Y
Audit committees mandatory and implemented?	S	Y	Y	S	S	Y	Y	Y	M	Y
Are audit committees functioning independently?	N	S	S	M	M	S	N	S	M	M
Do companies release detailed AGM notices at least 28 days before?	S	S	S	S	M	S	Y	S	Y	M

Key: Y=Yes, N=No, S=Somewhat, M=Marginally

*(Source: Compiled by the author based on various media reports)*

Although most Asian countries are strengthening their accounting standards and adopting minimum CG rules, many are still lagging behind in their effective enforcements: lack investigative powers and political will, enforcement staffs, or big budgets to conduct rigorous investigations. Most governments are augmenting their resources to monitor companies and enhancing the authority of their regulators, some of which are now getting tougher. It is a matter of great pride that some exemplary companies can be found in Asia also. For instance, CLP, HSBC (Hong Kong), Sharp (Japan), Posco, LG, Kookmin Bank (South Korea), Public Bank (Malaysia), Siam Cement (Thailand) and Singapore Telecommunications (Singapore), Infosys Technologies (India) to name a few, have been recognized by several publications and organizations in the past for their good CG practices.

In response to a series of major corporate and accounting scandals including Enron, Tyco and WorldCom which resulted in a decline of public trust in accounting and reporting practices, US enacted Sarbanes-Oxley Act, 2002

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(SOX) which was later adopted by the SEC to enforce the provisions. The Act established new standards for public boards, management and accounting firms in US and its major provisions include creation of the Public Company Accounting Oversight Board (PCAOB), independence of auditor and CG. The major provisions of SOX cover the following:

- Certification of financial reports by chief executive officers and chief financial officers.
- Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work.
- A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor.
- Ban on most personal loans to any executive officer or director
- Accelerated reporting of insider trading
- Additional disclosures
- Enhanced criminal and civil penalties for violation of securities law
- Significantly longer maximum jail sentence and larger fines for corporate executives who knowingly and wilfully misstate financial statements
- Protecting employees who report corporate fraud.

From the above, it is clear that the link between governance and transparency is clear in the public's (and regulator's) perceptions. Transparency was increased for the purpose of improving CG. The 'new' regulations put in place through the "Sarbanes-Oxley Act" in the USA and the "Combined Codes" in the UK have helped to introduce much-needed reforms, particularly with regard to CG transparency. In much of Asia, directors and officers are already liable for fraudulent financial reporting, yet some of these countries are thinking about replicating the certification requirements under the SOX. **Table-8** pinpoints some of the implications of SOX for Asian countries.

**Table-8: Sarbanes-Oxley's Echoes in Asia**

Question	China	Hong Kong	India	Indone	Korea	Malaysi	Philippi	Singap	Taiwan	Thailan
Disclosure of audit and non-audit fees to external auditor?	Y	Y	Y	N	Y	Y	S	Y	Y	Y
Following international standards on the independence of external auditors?	S	Y	Y	S	S	S	Y	Y	Y	Y
Must CEO, CFO, or directors certify the annual accounts?	Y	S	Y	Y	Y	M	Y	S	S	Y
Strengthening regulation of the accounting and auditing profession?	S	S	M	S	S	S	S	Y	S	S

[Keys: Y = Yes; S = Somewhat; M = Marginally; N = No]

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(Source: Compiled by the author based on various media reports)

There has been a resurgence of interest in ethics in reaction to the CG scandals at the beginning of the decade. The accounting profession globally has taken steps to enhance the importance of ethical behavior and decision making. The International Federation of Accountants (IFAC) has launched a revised code of ethics based on a set of fundamental principles to be adopted by individual accountancy bodies. Accountants in business, particularly at board or at top management level, are often regarded as the keepers of the ethical conscience of their organizations. As well as following their own professional codes of ethics, accountants set an ethical example to others. According to a research report (2006) prepared by CFO Asia in collaboration with ACCA: "Good ethics are vital to good corporate governance. Company boards too are now becoming much more aware of the need to have the right ethical culture. The culture of an organization is probably the most important aspect of its system of internal control, and it is the foundation for other internal controls. Management may set out the policies and procedures which it wants followed, but it is the corporate culture which determines when they are followed, amended or ignored."

No doubt, CG has improved to some extent in the Asia region and some countries (Singapore in particular) have made significant progress in this direction. The next step is to instil "new governance" behavior, and it will take considerable time in the near future. Many corporate leaders, investors, and regulators in Asia articulate the benefits of effective CG. They judiciously understand that enduring reforms would not be achieved overnight, and that, in the short term, many practical impediments and disincentives may block or slow down the necessary changes. Thus, to move ahead in the right direction with consistent pace, across the Asian region, both governments and companies must play their respective roles. In this context, Leahy (2004) once remarked: "Governments should provide a strong legal and regulatory framework to underpin the reforms. Companies, on the other hand, should create stronger and more purposeful boards; enhance the scope, accuracy, and timeliness of financial reporting; and pay more regard to the rights and interests of minority shareholders." While country-specific provisions will differ from one country to the next, any reform effort must include following core elements: robust corporate and securities laws, tough accounting standards, strong regulators, efficient judicial systems, and determined efforts to clamp down on 'corruption'. Without sustained progress in the foundations of CG, any improvement focused at individual companies level will fall far short of its potential.

### **8. A Time for Rethinking**

Ethics is an 'inspirational' objective, and should represent the 'intrinsic' cultural values of the society in which a corporation operates, as well as, the behavior expected of the corporation in all its dealings with shareholders and other stakeholders generally. It should be clearly noted that the notion of having "one

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size fits all” type of universal CG code is not only inappropriate but undesirable also.

Modern society is afflicted by “moral pollution,” which is not confined to the corporate sector alone, but is all pervasive. In such a climate, mere gimmicks of reforming the corporate sector would not automatically guarantee good CG. What is required is an evolution of a culture of social consciousness. The global debate is gradually ‘converging’ very much in favor of having “Code of Ethics and Values,” but the challenge is how to successfully implement it. The Indian *Vedas* had stated long back, how to do it with the help of an example: “A business should benefit from business like a honey bee, which suckles honey from the flower without affecting its charm and beauty,” thereby indicating that adopting ethical values and principles are the only solutions to prosperity and welfare of the society in the long-run.

Barton and Coomers (2005) observed: “Agreement is growing, at least in principle, on what good CG entails, and most countries in the region have adopted CG Codes. Securities laws and the listing requirements of stock exchanges have been strengthened, regulatory authorities have enhanced powers, and the media is more inquisitive.” Since the Asian crisis, all the countries in the region have seen an overhaul in their auditing/accounting standards. Consequently, there has been a convergence of local auditing standards with international best practices. Not only does this mean that there is standardization across the region, which facilitates comparisons, it also shows a heartening dedication to transparency and openness. Yet the progress is uneven. Moreover, the institutions needed to ensure good governance—judicial systems, capital markets, long-term institutional investors that can push for better governance—continue to be underdeveloped in most of the region. Laws and regulations are not enforced rigorously. The years following the Asian financial crisis have seen the implementation of more rigorous CG standards but it is questionable whether the new rules have actually permeated corporate practices.

Now, the challenge is to move away from the ‘philosophical’ debate on CG to dealing with the “hard” issues of practical implementation, and the application of good CG practices throughout the world. It will be necessary to analyze the particular circumstances of each country, their legal and regulatory systems, structures of business enterprise, inherent cultural characteristics and heritage, before defining any specific approaches to addressing issues of CG. Naturally, each country must define for itself what its special circumstances and priorities are within this context. Binoy and Binoy (2005) suggests: “The next phase of activities will include establishment of “Centres of Excellence” in collaboration with the World Bank to provide training at regional and country level in the various elements constituting a suitable CG framework.”

Maintaining the momentum for CG reforms in Asian countries, thus, will require some rethinking on ‘basic’ questions. First, what major rule changes or changes

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to the legal system are needed to allow market participants to fully engage in CG reform and to complement the efforts of regulators? If we want robust and effective CG, we need robust and well-crafted rules, and vigorously enforcing them. Secondly, do any existing procedural rules inhibit investors from exercising their most basic rights, such as, voting and participating in annual general meetings? The answers in many parts of the region are amply clear, that they do. Thirdly, are any existing rules inherently self-defeating and incapable of producing the intended outcomes? Weak definitions of “independent director” are a good example. Fourth, are we creating potential conflicts or managerial inefficiencies within companies by grading new global best practices onto traditional company law structures without reforming them? A good example here is the introduction of independent directors into the quasi two-tier or dual-board system of China, Indonesia, Japan and Taiwan.

Benz and Frey (2007) conclude: “We proposed that CG can learn from four cornerstones of public governance. First, we argue that CG can gain from realigning managers’ compensation with the practice prevalent in the public sector—namely, fixed compensation not dependent on pay-for-performance. Second, we consider the advantages of relying on the basic democratic idea of division of power in CG. Third, we can learn from how rules of succession prevalent in the political sphere can be applied so as to devise better governance rules. And, fourth, we propose that CG can be improved by relying on institutionalised competition in core areas of the firm.

CG is not just “compliance” but goes further—beyond compliance towards building a good governance culture, instilling an environment of trust and confidence. CG stems from the culture and mindset of management and cannot be regulated by legislation alone; too many legal provisions and their intricacies would make the real objective worthless. Perhaps the most important challenge we face, at present, is the mindset of the people and the organizational culture. This change should come from within, not by force. The government or the regulatory agencies, at best, can provide certain environment which will be conducive for such a mindset taking place but the primary responsibility is of the ‘managerial people’ (the elite and more powerful class) especially the members of the board of directors and the top management. Further, the spirit of CG is more important than the form—substance is more important than style. Ethical values are the essence of CG and these will have to be clearly articulated, and systems and procedures devised so that these values are practiced ‘willingly’ by the corporate world. Inevitably, the question of CG boils down to “morality and respect for the shareholders’ right.” I am of the firm opinion that some initiatives have been taken by various national agencies in Asia, but much work still remains to be done (see **Table-9**), and the ethos of CG culture has yet to sink in. Full convergence with international accounting and audit standards, better protection of minority investors, stronger enforcement of existing laws & regulations, actual independence of the supposedly independent, non-executive

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directors, etc., are some of the grey areas requiring improvements in CG scenario in the Asian countries.

**Table-9: Shareholder Rights--a Work-in-progress in Asia**

Question	China	Hong Kong	India	Indone	Japan	Korea	Malaysi	Philippi	Singap	Taiwan	Thailan
Can minority shareholders easily elect an independent executive director?	N	M	M	N	N	N	N	N	M	M	N
Are pre-emption rights for minority shareholders family protected?	N	M	M	L	N	M	M	N	M	M	S
Is there a trend of large listed companies voting by poll?	S	Y	M	N	N	N	N	N	N	N	S

Keys: Y = Yes; S = Somewhat; M = Marginally; N = No

(Source: Compiled by the author based on various media reports)

## 9. Conclusion

There has been a resurgence of interest in ethics in reaction to the CG scandals of the beginning of the decade. With the collapse of Enron and Arthur Anderson in the U.S. and similar disasters in the U.K. (such as Marconi), CG has become increasingly hot topic for reforms. For example, Khanchel (2007:740) highlights the vital role played by various international bodies to improve CG as: "Consequently, international organizations have become very concerned about governance issues. For example, the IMF has demanded that governance improvements be included in its debt relief program... In addition, private firms such as Standard & Poor, Credit Lyonnais Securities Asia and McKinsey are also calling for sweeping reforms of governance practices." In 1999, the OECD issued its influential "OECD Principles of Corporate Governance," intended to assist member and non-member countries in their efforts to evaluate and improve the legal, institutional and regulatory framework for better CG. Moreover, the accounting profession globally has taken steps to enhance the importance of ethical behaviour and decision-making. According to a research report prepared by the CFO Asia (2006:31), in collaboration with ACCA, "The International Federation of Accountants (IFAC) has launched a revised code of ethics based on a set of fundamental principles to be adopted by individual accountancy bodies. The ACCA has already revised its own code of ethics for its members to be consistent with the IFAC standards."

Ethics is an 'inspirational' objective, and should represent the 'intrinsic' cultural values of the society in which a corporation operates, as well as, the behaviour expected of the corporation in all its dealings with shareholders and other stakeholders. Realizing the need for "good" governance, corporations from all

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over the globe must attempt to evolve gradually from the traditional “compliance” approach to a “conscience” one. Ethical practices and issues are complex; however, no universal model can be prescribed. It should be clearly noted at the outset that the notion of having “one-size fits all” type of universal CG code is not only inappropriate but undesirable also. For example, Jamie Allen (2009:35) very appropriately concludes: “Each country and model (U.K., U.S. or any other) has its own strengths and weaknesses. It is unwise to borrow entirely from one system to the exclusion of others. Regulators should consider which system offers the most effective standards or rule to resolve specific CG problems.”

Majority of Asian countries have individually established ‘national’ codes to meet their own special requirements. As per Indian *Shastras*, “improvement in the quality of governance can improve only if each and every individual starts culturing human values in the inner world of himself. Search for effectiveness by culturing human values is a journey within the individual, within the self.” The Indian *Vedas* had stated long back, how to do it with the help of an example: “A business should benefit from business like a honey bee, which suckles honey from the flower without affecting its charm and beauty,” thereby indicating that adopting ethical values and principles are the only solutions to prosperity and welfare of the society in the long-run. The global debate, however, is gradually ‘converging’ very much in favor of having a “Code of Ethics and Code of Good Governance,” but the challenge is how to successfully implement them in Asia region.

Keeping in view the vast amount of differences prevalent in the Asian countries/markets merely adopting CG requirements *en masse* from the Western countries would be a foolish mistake. Instead, the Asian governments should rank their reforms, from time to time, in order of priorities and tailor them to the country’s specific needs. Ensuring that local laws and CG codes are consistent with the OECD’s “Principles of CG,” we personally feel would be a good starting point. Published guidance and standards, such as those issued by COSO, are influential too. COSO is a voluntary private sector organization that promotes better financial reporting through business ethics, effective internal controls, and CG. Moreover, the International Accounting Standards, with linkages to the International Organization of Securities Commission (IOSCO), which represents most of the world’s regulating stock exchanges, are pulling towards a “harmonization” of desirable CG practices in Asia too. However, we are of the firm opinion that it is better to enforce ‘basic’ reforms vigorously rather than to adopt requirements that would go totally unheeded.

Now-a-days, many companies are thinking of CG as something more than just an area reporting to the Corporate Secretary or Legal Counsel. Recently, the rise of the “Chief Governance Officer” mirrors the appointment of the Chief Ethics Officer by many companies that have been plagued by scandal or crisis (e.g. MCI). As these roles become institutionalized, they will emerge as the engines of the next generation of CG ‘best’ practices designed to add value, instead of

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simply complying with external regulations and codes. Similarly, some CG experts have advocated the constitution of “Compliance Committees” to improve CG transparency scenario. Without greater CG transparency, laws and governance codes will do little to build investors’ confidence in the long-run. Notwithstanding recent reforms, accounting standards in many Asian countries remain weak. Disclosure requirements and auditing practices, however, are improving slowly since national financial reporting standards are gradually being “harmonized” with international standards. The truth is that CG practices in various countries still remain divergent despite major initiatives for convergence. Although most Asian countries are strengthening their accounting standards and adopting minimum CG rules, many are still lagging behind in their effective enforcements. However, most governments are augmenting their resources to monitor companies and enhancing the authority of their regulators, some of which are now getting tougher.

Jamie Allen (2006:18) very strongly asserts, “Consistent and well-crafted rules are critical to spur good CG in Asia... If we want robust and effective CG, we need robust and well-crafted rules, and vigorously enforcing them. Without greater transparency in CG, laws and governance codes will do little to build investors’ confidence in the long-run. CG stems from the culture and mindset of management and cannot be regulated by legislation alone; too many legal provisions and their intricacies would make the real objective worthless.” Over the few years, a range of initiatives (both public and private) have been launched with a view to improving CG and ethics in Asia. Still much work remains to be done and the ethos of CG culture has yet to sink in. Full convergence with international accounting and audit standards, better protection of minority investors, stronger enforcement of existing laws & regulations, etc., are some of the grey areas requiring immediate improvements in CG scenario in Asian countries.

CG has improved to some extent in the Asia region and some countries have made significant progress in this direction. For instance, Allen (2004:1) states: “Asian regulators have made many advances, mainly by matching their accounting and auditing standards to international norms. And all but a few have strengthened securities laws, mandating the disclosure of ownership for stakes above 5%, prompt reporting of share transactions by directors and controlling shareholders, and continuous disclosure of material transactions (including significant connected transactions).” The next step is to install new governance behaviour. Corporate leaders, investors and regulators should understand that enduring reforms would not be achieved overnight, and that, in the short term, many practical impediments and disincentives may block or slow down the necessary changes. Thus, to move ahead in the right direction with consistent pace, across the Asian region, both governments and companies must play their respective roles. While country-specific provisions will differ from one country to the next, any reform effort must include following core elements: robust corporate and securities laws, tough accounting standards, strong regulators, efficient

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judicial systems, and determined efforts to clamp down on 'corruption'. Without sustained progress in the foundations of CG, any improvement focused at individual companies level will fall far short of its potential.

**Table-6: Regional CG Disclosure: Strengths and Weaknesses**

<p><b>Strengths:</b></p> <ul style="list-style-type: none"><li>▪ Improving financial reporting: frequency, speed, substance, consolidation of accounts, director pay, stock-option expensing.</li><li>▪ Quality of auditing and investor communications among large issuers is generally good and improving.</li><li>▪ Regulators seem to have got the message on enforcement.</li><li>▪ Regulatory and stock exchange information communication (e.g., in use of websites) is improving rapidly in many markets.</li><li>▪ Professional and director training strong/growing.</li></ul>
<p><b>Weaknesses:</b></p> <ul style="list-style-type: none"><li>▪ The quality of financial and non-financial reporting among small- and mid-cap listed firms is lagging.</li><li>▪ Late reporting deadlines in certain markets.</li><li>▪ Continuous disclosure of price-sensitive information needs to improve.</li><li>▪ Blatant misuse of the "personal reasons" explanation when a director resigns.</li><li>▪ Inadequate rules on disclosure of takeover bids.</li><li>▪ Draft IPO prospectuses provided only to certain investors and analysts in some markets.</li><li>▪ Some regulators still vet company announcements.</li><li>▪ AGM agendas and circulars often lack sufficient detail.</li><li>▪ Publication of detailed AGM vote results often non-existent.</li></ul>

It is a matter of great pride that exemplary companies can be found in Asia: CLP, HSBC, HK Exchanges, Esprit, Swire, Standard Chartered, Nine Dragons Paper (Hong Kong), Posco, Hynix Semiconductor, LG Philips, Kookmin Bank, Hana Financials (South Korea), Public Bank (Malaysia), Siam Cement (Thailand), Singapore Telecommunications (Singapore), Sharp, Honda & Toyota Motors, Mitsubishi Electric, MSI (Japan), Infosys, Wipro, Hindustan Lever (India), and Taiwan Semiconductor, China Steel, United Microelectronics (Taiwan). In fact, some of these corporations have been recognized by several publications and organizations in the past for their good CG practices. **Table-6** summarizes the regional CG disclosure strengths and weaknesses. No doubt, some Asian

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countries have a higher ratio of strengths to weaknesses than others. Indeed, it is accurate to say that global shifts in standards are facilitating (probably, adding pressure to) the adoption of ethical practice everywhere. Many CG experts may be wondering if there is room for traditional 'Asian values' in the emerging global environment. At the same time, political initiatives (such as Sarbanes-Oxley Act, with its provisions for personal responsibility and the separation of auditing and consulting) have made an impact even on non-U.S. companies in Asia. There are even signs that the Asian region's CFOs would welcome a more stringent ethical framework.

Based on the CG and Transparency scenario prevalent in the Asian countries/markets, the following 'broad' conclusions can be derived:

- Considerable growth in rules and guidelines on CG in Asia. The convergence (or harmonization) with International Accounting Standards has been a positive step towards uniformity and improved controls in territories, such as Hong Kong, Malaysia and Singapore. These accounting reforms have been accompanied by new ethical codes. Yet rules and regulations, best practices, and ethical ideologies & standards vary greatly.
- Progress in CG reform in Asia varies considerably by country/market, and by company. It also varies over time: the boom of the past 2-3 years lessened pressure for reform, but this is likely to change given current volatility and bear markets.
- The stronger the signal from the market to companies that CG does matters, the better they will perform. While considerable progress has occurred, it remains half-formed in many areas. Even the best markets are some way from being world-class.
- Financial disclosure and transparency in CG has improved over the past decade, but the job is far from complete. The shift to international accounting standards and the need to comply with tougher national codes have placed new operational demands on finance departments. CFOs appear to have taken such governance-related changes in their stride. However, corporate disclosure issues will once again be actively discussed in the next two-three years.
- A growing focus on shareholder rights and stakeholder issues, with increased voting and meeting attendance by institutional investors.
- Board structure and composition should be aligned with the company's business, with each element designed to produce tangible results.
- ESG must be strategic if it is to have any long-term meaning.
- Much greater disclosure of executive and director remuneration required, with some controls being put in place. Yet disquiet remains about the stock-option policies of some issuers. This could become a bigger issue in future.

Over the past few years, a range of initiatives have been launched with a view to improving CG and ethics in Asia. However, many of these measures appear to be works in progress, requiring further development to be truly effective.

## **Bhasin**

Certainly all the Asian countries are in a much better shape now, from a CG perspective, than they were at the start of this decade. The challenge, at present, is to keep going and avoid the temptation to sit back and relax. In nutshell, we can say that CG scenario in Asia remains at best a gradual work-in-progress, and how soon it will attain perfection only future will tell us.

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