

Using ‘Dharma’ In Corporate Governance: Problem Of Increasing Transparency In The Asian Countries

Madan Lal Bhasin*

Corporate Governance (CG) has assumed greater limelight with the series of corporate failings, following which the markets, investors and society at large have begun to lose faith in the infallibility of these systems. Nowadays, the conduct of those who take care of ‘public’ money is being questioned since they are being tested on ‘ethical’ standards. We have advocated an application of ‘Dharma’, as stipulated in ancient Indian ‘Shastras,’ to improve CG. Improving CG has been on the agenda for Asian regulators, with most markets having introduced comprehensive regulations. How to increase CG transparency in the Asian countries is the major problem? We have provided an overview of two studies recently conducted by the ACGA and JP Morgan. No doubt, CG scenario has improved to some extent in the Asia region and some countries have made significant progress, the ethos of CG has yet to sink in. Moves are afoot globally to promote ‘convergence’ of good CG practices. CG in Asia remains, at best, a work-in-progress requiring some rethinking.

Field of Research: Corporate Governance

1. Introduction

The term ‘governance’ has been derived from the word ‘*gubernare*’, which means “to rule or steer”. However, over the years it has found significant relevance in the corporate world on account of growing number and size of corporations, the widening base of their shareholders, increasing linkages with the physical environment, and overall impact on the society’s well-being. During the 1990s, a number of high-profile corporate scandals in the U.S. (viz., Enron, WorldCom, Tyco, etc.) and elsewhere triggered an in-depth reflection on the regulatory role of the government in protecting the interests of shareholders. To redress the problem of corporate misconduct, ensuring sound corporate governance (CG, in short) is believed to be essential to maintaining investor confidence and good performance. Undoubtedly, CG 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).

*Dr. Madan Lal Bhasin, Associate Professor, Department of Accounting & Finance, Dhofar University, Salalah, Sultanate of Oman. E-mail: madan.bhasin@rediffmail.com.

Today, CG practiced by some corporations has turned out to be an annual ritual, involving “check-box” of items around legislative requirements. Realizing the need for ‘good’ governance, corporations 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. Recently, 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. 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.”

CG is concerned with wider accountability and responsibility of the directors towards ‘key’ stakeholders of the corporations: 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.” Moves are afoot globally to promote ‘convergence’ of good CG practices. “Codes on Corporate Governance” issued internationally by the OECD, World Bank and Common Wealth Secretariat 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.

2. 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 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). Unfortunately, no study has been conducted, which attempts to explore CG values from the Indian “*Vedas* or *Shastras*”. It is in this context, an attempt is made here to explore age-old Indian philosophical tradition, and our

Shastras (The Bhagavad Gita) to derive certain governance values so as to fill the gap.

Recently, CG has received much attention in Asia due to its financial crisis. Fan and Wong (2002) report 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 find that the reported earnings generally lack transparency and that adopting International Accounting Standards alone does not ensure high transparency. However, “CG Watch 2005,” a joint study undertaken by independent stockbroker CLSA Asia Pacific Markets, and Asian Corporate Governance Association (ACGA) offers the most comprehensive assessment of CG standards within the Asia region. In order to provide empirical support in the form of CG scenario information, we have utilized in the present study the relevant data made available through their publication and media reports.

3. Research Methodology

The importance of using ‘ethical’ values in business is underlined by the increasing emphasis placed on CG. The concept of ethical values got crystallized in the *Hindu* thinking in the form of ‘*Dharma*’. Not going anywhere else, if we look at the age-old Indian philosophical tradition and our *Vedas/Shastras (Bhagavad Gita, for example)*, we can pinpoint certain ethical values, which are also consistent with the value systems of other civilizations. This *Hindu* epic is part of the “*Mahabharata*” written by *Rishi Veda Vyasa* in *Sanskrit*, which could have been orally composed around 3140 BC, while written documentations were dated between 300 BC and 200 AD. Accordingly, we have used an “empirical and exploratory” approach. CG has been high on the agenda for the Asian regulators, with most markets having introduced comprehensive regulations in order to improve “transparency”. In our study, we have used secondary and published sources of data relating to CG practices, transparency, and reforms undertaken in the Asian countries.

4. Analysis and Discussion of Study

4.1 Using “Dharma” in CG—an Indian Perspective.

The corporate world must use ethics in its operations and make its business practices transparent and accountable to its stakeholders. To support this view, Sheikh and Chatterjee (2001) have aptly remarked, “Each company needs to develop its own code of ethics, based on the ‘core’ values of the business.” But what are ethics and do we have any ethical codes, which we can spot in the ancient scriptures? If we look at the Indian *Shastras (The Bhagavad Gita, for example)*, we can pinpoint and derive certain ethical values. This *Hindu* epic,

which is considered as the world's longest poem, is part of the "*Mahabharata*" originally written by *Rishi Veda Vyasa*. In the *Bhagavad Gita*, there are 700 "*shlokas*" (or verses), which were written in "*Sanskrit*" language. Dr. Athreya (2005) very lucidly highlighted some of the concepts of *Dharma*, as enshrined in the Indian *Shastras*.

- **Dharma** (*Righteousness*): The right path, which will uphold the family, organizational, and the social fabric. It helps in the long-term upliftment of all living beings and ensures welfare of society.
- **Loka Sangraha** (*Public Good*): Work not just for private gain, but also for public good. The practice of *Swartha Prartha* (self plus others) seeking ones own gains and also catering to the welfare of others.
- **Kausalam** (*Efficacy*): Optimum utilization of resources efficiently and productively. Judicious use of resources and preserving the resources for future generations.
- **Vividhta** (*Innovation*): Beyond survival, business has to be the 'engine' of innovation constantly seeking more effective solutions to meet their economic and social expectations. Such innovations are required in processes, products, materials, machines, organizations, strategies, systems and people.
- **Jigyasa** (*Learning*): Change and continuity will co-exist. So, the corporations have to keep learning from the feedback loop from society and through internal processes of question, challenges, debates and training.

Dharma's origin can be traced as solution to eternal problems confronting the human race, originating from natural human instincts, *Kama* and *Artha*, respectively. In this context, Manu says:

***Akasmay Kriya Kaschdrishayate Neh Kahinchit,
Yadvati Kurute Kinchhit tattkamasse chestitam.***

It means that there is no act of man, which is free from desire; whatever a man does is the result of 'endless' desires. The guiding force behind every action of human being is his desire, which is called '*kama*'. There is a natural desire to have enjoyment and wealth, which is called '*Artha*'. But *artha* and *kama* are subject to *dharma*. The propounders of *dharma* did appreciate that fulfilment of desires of human beings was an essential aspect of life but were of the opinion that unless law regulated the desires, it is bound to give undesirable results. Therefore, all the propounders of *Dharma* were unanimous that for existence of an orderly society (in this case an orderly market economy), the desires (*Kama*) for material enjoyment, and pleasures (*Artha*) should always conform to the rule of *Dharma*.

Dharma protects those who protect it. Those who destroyed *dharma* also get destroyed. For the sake of getting a short-term benefit, resorting to lies or

straying from the straight and narrow path ultimately leads to a long-term failure. We would, therefore, suggest that even at the cost of sacrificing short-term benefits, it is better for an enterprise to adopt healthy and transparent business practices. The fundamental principles and precepts of CG are that *“public good should always be ahead of private good and the corporate resources are not used for personal benefit of any individual.”*

From the perspective of *Shastras*, deeds are more important than mere words, slogans, rhetoric or lectures, as highlighted in one verse: *“Why do you say that which you do not do?”* Only when actions speak louder than words, can a good CG culture emerge and protect the welfare of all stakeholders in today’s corporate world. Another important ingredient of CG is “accountability”. On this matter, *Shastras* suggests: *“Each one of you is a guardian (of family, organizations, and society) and each guardian is accountable to everything under his care.”* If this tradition is translated into modern business dealings, all persons involved in business transactions are indeed accountable for all their actions.

The ***Bhagwad Gita*** in 16-24 states:

***Tsmachastrnm pramanam te karyakarvavyasthithao,
Gyatva shastravidhanoktam karm kurtumihahirsi.***

Which means, let the ‘*Shastras*’ be your authority in deciding what you should do and what you should desist from doing. In this case, the *Shastras* are nothing else but the ‘codes’ of best practice (or ‘good’ governance) developed by various institutions. However, what is needed is ‘uniformity’ in those codes and ‘effective’ implementation by the corporations. Some of the pillars of Indian philosophical tradition outlined above, which have explicitly provided for proper conduct, needs to be incorporated in our dealings with other people, even though be of political or economic in nature. According to Dr. Rao (2005), “CG can be ethical when it rests on the core values of honesty, integrity, respect, fairness, purposefulness, trust, responsibility, citizenship and caring.” These values must not to be lost sight of by anyone, under any circumstances, irrespective of the goals that is intended to achieve. Similarly, Binoy and Binoy (2005) conclude: “To achieve the ends of good governance, the means are as important as the ends.” Safe and fair play is always ethical, so we believe that *“do not do something that you would be ashamed of, if it becomes public.”* The situation we face in Asia (of ‘bad’ governance) is not actually ‘bad’ governance, but crisis of governability. Short-term gains had taken over the long-term vision and goals. Governance, in fact, is a way of life that necessitates taking into account all the stakeholders’ interest in every business decision.

4.2 Problem of Increasing Transparency in the Asian Countries

CG in Asia has received much attention in recent years due to its financial crisis. In fact, Asia is a very diverse region in terms of levels of economic development

and institutional regimes. There are commonalities across the economies: prevalence of family ownership and relationship-based transactions. Asia has some specific CG issues like family-ownership concentration and 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. In fact, CG is concerned with creating a system of checks and balances regarding decision-making rights within a company. The separation of ownership (the shareholder) and control (the management) in modern enterprises brings about “agency” problems in which the management may take actions that compromise the interests of its shareholders. Ferris et al., (2007) concludes: “We find that the incidence of derivative lawsuits is higher for firms with a greater likelihood of ‘agency’ conflicts. Derivative lawsuits are associated with significant improvements in the board of directors: the proportion of outside representation on the board increases.” An ideal governance structure, however, should give management sufficient room to exercise their talent, while simultaneously controlling their behavior. “The Combined Code, 2003 (UK) is a practical implementation of this idea comprising two parts: principles of good governance and a code of best practice,” (Chang et al., 2006).

A key element of ‘good’ governance is transparency, 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 observe: “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. The financial crisis that overran much of Asia in the late 1990s prompted most of the countries to give improved CG a priority. “Spreading the Word: CG Watch 2005,” an annual collaborative study of the CG landscape of the Asian markets, jointly undertaken by the CLSA Asia-Pacific Markets, and Asian Corporate Governance Association (ACGA) offers the most comprehensive assessment of CG standards, and progress for both regulators and companies within the Asia region. Jamie Allen, Secretary-General of ACGA (2005), provides a vivid account of the methodology followed: “Substantial improvements on the basis of key determinants of CG, (viz., rules & regulations, enforcement, political & regulatory environment, adoption of international accounting standards, institutional landscape and CG culture, respectively) had taken place in the Asian countries markets rankings for CG. Countries in Asia were scored against these five issues and a weighting to each category applied to arrive at an overall country score,” as shown in **Table-1**.

Table-1: The Asian Governance Regimes

| CLSA/ACGA Country* Ranking Criteria | China | Hong Kong | India | Indonesia | Korea | Malaysia | Philippines | Singapore | Taiwan | Thailand |
|---|-------|-----------|-------|-----------|-------|----------|-------------|-----------|--------|----------|
| RULES AND REGULATIONS: | | | | | | | | | | |
| Most companies report their annual results within two months? | N | N | N | Y | N | Y | N | Y | N | Y |
| Have reporting deadlines been shortened in the past three 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 five per cent? | 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 Annual General Meetings? | N | S | N | N | N | N | N | N | S | N |
| Can shareholders easily remove a director who has been convicted of fraud or other serious corporate crimes? | S | S | N | S | N | S | S | Y | Y | N |
| Will share option expensing become mandatory over the next ten months? | N | Y | S | S | N | N | Y | Y | S | N |
| ENFORCEMENT: | | | | | | | | | | |
| 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 |
| POLITICAL AND REGULATORY ENVIRONMENT: | | | | | | | | | | |
| 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 |
| ACCOUNTING AND AUDITING: | | | | | | | | | | |
| Do the rules require disclosure of the 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 the international standards on auditing? | Y | Y | S | S | S | Y | Y | Y | S | Y |
| INSTITUTIONAL MECHANISMS AND CORPORATE CULTURE: | | | | | | | | | | |
| 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: The CLSA Asia-Pacific Markets & Asian Corporate Governance Association: CG Watch 2005).

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.

So far so much for what is good in Asian CG regulation. There is continued reluctance among many Asian markets not to shorten their annual reporting deadlines, especially in Hong Kong, South Korea, Taiwan and Indonesia. Only Korea has introduced 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, 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 Soo (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."

According to Panjwani (2005), "The country CG score for India for 2005 is 6.2, or third in the region after Singapore (7.5) and Hong Kong (6.7), as shown in **Table-2**. While India scores over most other Asian markets in areas of rules & regulations and their enforcement, it scores lower than most on adoption of

international auditing standards.” 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 remains firmly rooted at the foot of the table. 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-2: 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 |
| Hong Kong | 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 |
| 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)

Another research study reported 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-3**). "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 132, 100, 114 days respectively, performed more poorly)." 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 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-3: Average Days Between Close of Books and Reporting

| Country | Quarterly | Semi-annual | Annual report (consolidated) |
|--------------------------------|-----------|-------------|------------------------------|
| 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 |
| International Average # | 35 | N/a | 59 |

* 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).

New forms of CG behavior will take considerable time to become ingrained in the thinking and culture of companies. Governments, corporate leaders, investors, and regulators in 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 USA or the 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,” we 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.

Melendy and Huefner (2007) have recently advocated the constitution of “Compliance Committees” to improve CG 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 are improving slowly since national financial reporting standards are gradually being “harmonized” with international standards. Yet, the sober 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: 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. Region-wide organizations (such as, ACGA) 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.”

No doubt, CG has improved to some extent in the Asian region and some countries (especially Singapore) have made significant progress in this direction. The next step is to instill “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 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) aptly 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 country to country, 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.

5. Conclusion

CG scenario has improved to some extent in the Asian region and some countries have made significant progress. Agreement is growing at least in principle on what "good" CG entails, and most countries in the region have adopted 'explicit' governance codes. However, to move ahead in the right direction with consistent pace, across the Asian region, both governments and companies must play their respective roles, as stated above. Maintaining the momentum for CG reforms in the Asian countries will require some rethinking on 'basic' questions. First, what major rule changes or changes to the legal system are needed to allow market participants to fully engage in CG reform and to complement the efforts of regulators? 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 definition of independent director is 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.

Jamie Allen (2006) strongly asserts, "If we want robust and effective CG, we need robust and well-crafted rules, and vigorously enforcing them. 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." Still much work remains to be done in Asia 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 the Asian countries. 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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