Lifting the veil on corporate governance

By PANG ENG FONG

INTEREST in corporate governance reform has surged in recent years. In Asia, this surge came after the Asian financial crisis in the late 1990s, which exposed long-known but overlooked weaknesses of the region's socio-economic systems.

Many companies were found to be “seen, but not known” when the tide of foreign capital receded. The crisis prompted governments and corporations in the region to introduce reforms ranging from tougher anti-corruption laws to stricter corporate rules on accountability, transparency and the protection of minority shareholders.

This edited volume (see below) of revised papers from an ISAS conference in 2004 reviews corporate governance reforms in Southeast Asia since the crisis. With contributions by specialists from many fields including law, economics and political science, the book takes a multi-disciplinary approach, aiming to give a rounded picture of progress made so far and to suggest ways to strengthen the reform process.

Overview papers in the first part of the book survey the region as a whole. The reform experiences of particular countries are dealt in the second part. The editor, Ho Khai Leong, summarises the papers and provides a useful introduction.

The impression one gets from reading the papers is that some progress has been made but much more remains to be accomplished. A more critical reader would conclude that in most countries, the reform effort has amounted to so little more so little more than a quirk of regulatory changes. The reasons for this slow progress in reform are made clear in the chapters on Malaysia, Indonesia, Thailand and Vietnam. With economic recovery, the urgency of reform has weakened and “business-as-usual” attitudes have re-emerged.

The reform process itself has run into difficulties when it became apparent that stronger regulatory discipline by itself was not enough to secure lasting improvements in corporate governance. Structural factors peculiar to Southeast Asia, namely, the predominance of family-held firms among listed companies, the large involvement of the state in business and close ties between the political and economic elites have also hampered effective reform.

As many contributors — including Wu Xin in a chapter on political institutions and corporate governance reforms in Southeast Asia; Djuaman Simanjuntak (on Indonesia) and Nick Freeman (on Vietnam) — rightly note, corporate governance reform can only make so much headway in the absence of political and institutional changes. Recent scandals in both developed and developing countries suggest that it is all too easy to adopt the letter of the law while ignoring its spirit. The dishonest and the greedy will discover ways to get around rules.

But rules must be to enforce contracts. The challenge is to design rules that give managers/corporate leaders incentives to observe them. This means striking an ever-shifting balance between the costs and benefits of compliance while recognising the fact, as SGX chairman JY Pillay put it in his introductory, that “man is both fallible and sinful.”

The “character and integrity” of corporate leaders are, unfortunately, much harder to discern and legislate than new rules. Self-discipline, though, does not emerge in a vacuum. It can be influenced and strengthened by effective market and regulatory disciplines.

As all contributors of the volume recognise, the government’s role in evolving these disciplines is critical.

The volume is not short on recommendations to improve corporate governance. Low Chee Kong in his chapter on disclosure, reporting, and derivative actions suggests greater shareholder activism and more protection for minority shareholders. But he is no believer in quarterly reporting “in its present form.” A framework to ensure full and timely disclosure of material information is more important.

Another contributor, Madhav Mehra, proposes an “alternative model” of corporate governance and calls for a national movement to “cleanse the market of entrenched incumbents.” He does not spell out what this alternative model would require of the state, managers, investors and the general public.

The problem in many Southeast Asian countries is not “entrenched incumbents”. Most firms struggle to abide by the rules, which can often be difficult to follow or understand. Egregious corporate wrongdoers who know the rules but choose to flout them are few.

The chapter on the pressures, problems and paradoxes of Singapore’s government-owned companies (GLCs) will interest readers keen to know why Singapore’s state-owned firms have flourished. It provides a balanced analysis of how GLCs have evolved. Like other commentators on the subject, the contributor, Ho Khai Leong, uncovers no evidence to suggest that GLCs are not efficient. He acknowledges that corporate governance reforms “cannot reverse the expansion or restructuring” of GLCs, which have a dynamic and pragmatic logic of their own.

While he believes “a strategic reformulation is in order if a healthy private-public partnership is to emerge and flourish”, he is also realistic that there is, for now, no impetus for such a “reformulation.”

ISEAS is to be commended for putting out this volume. Anyone interested in the progress and obstacles to good corporate governance in Southeast Asia since the Asian crisis will find many of its papers useful and informative.

* "Reforming Corporate Governance in Southeast Asia: Economics, Politics, and Regulations" by Ho Khai Leong (editor) (Singapore: Institute of Southeast Asian Studies, 2005. 387 pages)