
Corporate Governance and Practices of Selected Asian Nations

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ABSTRACT:

Although the attempts made by the corporate sector of the Asian Nations regarding accounting and auditing practices are highly appreciable, and online with the international norms. Yet, more efforts are required to make corporate governance practices more meaningful and effective because there are lot of discrepancies regarding the framework and enforcement of rules and regulations of corporate governance. The investors of Singapore, Korea and India, and to lesser extent Hong Kong and Malaysia, have stated playing a crucial role for promoting the corporate governance practices in their nations.

1. INTRODUCTION

The concept of corporate governance primarily hinges on complete transparency, integrity and accountability of the management, which includes the non-executive directors. It ensures maximum information to the shareholders and other stake holders in the corporate sector so that they can make judicious decision of their investment. Thus, in essence, corporate governance translates into conducting the affairs of a company in a manner that ensures fairness to customer's employees, shareholders, fund providers, suppliers, the regulator, and the society as a whole.

The responsibility, for ensuring the success of corporate governance lies on the board, the Shareholders and the employees. Corporate governance is therefore basically, a system of making directors accountable to shareholders for the effective management of the companies, in the best interest of the company and also with adequate concern for ethics and values. Corporate governance has also responsibility towards consumer and environment. In fact, the concept of corporate governance is to some extent similar to quality practices adapted under the ISO standard.

2. REVIEW OF LITERATURE

The debate on corporate governance is in full swing and literature on this subject is mushrooming. The more we try to define or understand it, the lesser it's meaning becomes. That's why available review of literature is categorized into two parts and presented in a brief form in the following text.

2.1 Review of literature from Committee's point of view

The first initiative on corporate governance in India was taken by the Confederation of Indian Industries by setting up a National Task Force (NTF) in 1996 under the chairmanship of Mr

Rahul Bajaj. This committee came out with a detailed code for corporate governance to be adopted and followed by Indian corporate in the private sector, public sector, business sector and financial sector. Various committees under the chairmanship of Kumar Mangalam Birla. (2000) followed by Shri Naresh Chandra (2002) and Shri Narayana Murthy (2003). The committee under the chairmanship of Kumar Mangalam Birla made 25 recommendations and out of them 19 was mandatory. The main recommendations were constitution of audit committees and remuneration committees. Other recommendation included the appointment of independent director, recognition of the leadership role of the chairman, enforcement of accounting standards, the obligation to make more 'disclosure in annual accounts', effective use of the right of institutional investor's etc. A High Level Committee, under the Chairmanship of Naresh Chandra was setup to examine the auditor company relationship, role of independent directors, and disciplinary mechanism over auditors in the light of irregularities committed by companies in India and abroad. The Narayana Murthy Committee recommended special disclosures for IPOs, Constitution of audit committee, disclosure of business risk and risk management strategies of every quarter, code of conduct for board member and Senior management and annual affirmation of compliance to it, training of board members to be there, etc.

Besides these committee's recommendation, the SEBI came out with various proposals to amend the listing agreement to inculcate the culture of corporate governance on the basis of these recommendations and SEW initiatives, the companies Act 1956 was amended. As a result, Indian corporate sector is confronted with the formal implementation of the principles of corporate governance.

2.2 Review of literature from Author's point of view

There are lot of studies, which have been conducted during the period 1998-2014 on the corporate governance practices and police prevailing in India and abroad. The first basic study has been conducted by the Gopal. (1998) which focused that good corporate governance is a must not only to gain creditability and trust, but also as a part of strategic management for survival, consolidation and growth. As we know that the independent director (are the key to corporate governance). How can they improve the quality of governance in Indian corporate sector has been very beautifully dealt by the Sen and Kumar (2005), Das (2006), Venugopalan (2006) and Kumar (2006). All these studies are based on the recent paper on the New Company Law and J. J Irani committee Report. The studies conducted by Saha Shanker (2005) and Narender V. (2005) stressed that the corporate governance practices can be improved by implementing accountability and EVA tools, etc. So far as the comparison of corporate governance practices prevailing in our country, and the other nations are concerned, the study conducted by Aggarwal (2006) dealt with the recommendations of various committees on corporate governance practices with the U. K. and compared with the corporate governance practices prevailing in India. The study focused that Indian corporate sector should give importance to their man power since good corporate governance depends on the mindset of the people behind a corporate entity. Bhasin (2005) compared the corporate governance practices prevailing in Asian economies and Indian economy and laid stress on the same theory of Aggarwal R (2005) that corporate governance and ethical conduct in business stems from the

culture and mindset of the management, and is beyond the realm of law. As far as the corporate governance as a critique is concerned the, studies conducted by the Venkitarman and Sharad (2005). Mayank eta! (2005), Chakrabarti(2005), Manu (2005) focused that the concept of corporate governance is being developed in the form of a surveillance of the system to be enforced under the corporate laws but it is a very serious matter it does not care of the spirit of the concept nor the extent of coverage required These studies showed that ripples of Cadbury Committee Report and Sarbans Oxley (SOX) have instigated the Indian authorities to came up with various legislation's and recommendations for companies to adopt the concept of corporate governance. But just legislation's are not sufficient and these is need of harmony in the provisions of Company Law, SEBI regulations and other provisions which effect the corporate sector. Ravin (2004) has also studied the similar finding by conducting study on the corporate governance practices of the banking sector. Roy N. and Yadagiri M.(2008) and Sreenivas (2008) studied that the better corporate governance would contribute to the increasing shareholders's wealth measured in terms of market capitalization. Bhasin M. (2010) advocated an implication of 'Dharma' as stipulated in ancient Indian Shastras to improve corporate governance. Bhasin M. (2012) studied the corporate governance practices of 150 corporations of developing countries. The study selected 40 items from the CG section of corporate governance during the period 2003-04 and 2004-05 and showed that corporations are following less than 50% items of the corporate disclosure index. Cheing Y, Piman L and Utama S. et. al (2014) studied the corporate governance practices in China, Hong Kong, Indonesia, Philippines and Malaysia by using OECD Principles of Corporate Governance as a benchmark to access the progress of five markets. The study showed that East - Asian listed companies have been making progress in their effort to adopt internationally accepted corporate governance practices.

3. OBJECTIVES OF THE STUDY, DATA SOURCE AND RESEARCH METHODOLOGY

Present research work is conducted to provide evidence on corporate governance practices and policies of ten Asian nations by considering the relevant parameters. Specifically the objectives of the study are as follows:

- (i) To study the rules and regulations governing all the companies under the Companies Act and other relevant Acts.
- (ii) To study are the rules and regulations properly enforced on the corporate sector, followed by the impact of political and regulatory environment on the corporate sector?
- (iii) to study accounting and auditing practices prevailing in these nations and is there any reconciliation with international standards.
- (iv) to study the institutional mechanism and corporate culture of the corporate sector of Asian economies

For the said purpose, the annual reports for the year end 2012 of CLSA Asia-Pacific Market (Collaborative study of Asian markets undertaken by independent stock broker) and Asian Governance Associates (ACGA) is identified. The parameters, on the basis of ranking is done by CLSAIACGA are given below.

- P₁ = Reporting of annual results by the companies with in two months
P₂ = Have reporting deadlines been shortened in the past three years

- P₃ = Is quarterly reporting mandatory
P₄ = Are class action law suits permitted
P₅ = Is voting by poll mandatory for resolutions at AGM.
P₆ = Do securities laws require disclosure of ownership stakes above 5%
P₇ = Do securities laws require prompt disclosure of transactions by directors and controlling shareholders
P₈ = Can shareholder easily remove a director who has been convicted of fraud or other serious corporate crimes.
P₉ = Will share option expensing become mandatory over the next ten months.
P₁₀ = Is there an independent commission against corruption that is seen to be effective in taking action against public and private sector companies
P₁₁ = Is the statutory regulator i.e. Securities Commission (and not part of the Finance Ministry)
P₁₂ = Is disclosure of consolidated accounts mandatory.
P₁₃ = Is disclosure of segment reporting mandatory.
P₁₄ = Is disclosure of connected transactions mandatory.
P₁₅ = Is disclosure of audit and non-audit fee paid to the external auditor mandatory.
P₁₆ = Does the government or the accounting regulator have a policy of following international standards of auditing
P₁₇ = Are the institutional investors involve in promoting better corporate governance practices.
P₁₈ = Are retail investors involved in promoting better corporate governance practices
P₁₉ = Have retail investors formed their own shareholder activist organisation.

The key determinates behind accessing corporate governance standards are rules and regulations 15% (covering parameters P₁ to P₉), enforcement 25% (covering parameters P₁₀), the political and regulatory environment 20% (covering parameters P₁₁) accounting and auditing 20% (covering parameters P₁₂ – P₁₆) and institutional mechanism and corporate culture 20% (covering parameters P₁₇ – P₁₉)

The basic assumption of the study is that all the corporate working in Asian nations has same corporate governance practices. The null hypothesis is that “There is no significant difference in the corporate governance practices operating in Asian nations”. The alternative hypothesis is that “There is an insignificant difference in the corporate governance practices among the corporate units working in Asia.”

Section 4

This text presents the analysis and interpretation of research findings based on the corporate governance practices of Asian nations.

(i) Rules and Regulations in Asian Countries. It is apparent from the below table that in Singapore, Malaysia, Indonesia and Thailand regulators require companies to report their annual results within a two months of financial period end. Similarly, quarterly reporting is mandatory in most of the Asian market with the notable exception being Hong Kong, where a strong resistance to change appears to persist among the territory large companies. There is

continued reluctance among Asian markets not to shorten their annual reporting deadlines especially in China, Hong Kong, Korea, Philippines and Taiwan.

As far as the disclosures made under Securities Laws are concerned, most of the Asian markets (except Philippines and Taiwan) are required to disclose owner stakes above 5% and almost all the Asian market except Indonesia are required the disclose details of shareholder transactions and controlling shareholders. It is very important to mention here that only Korea has introduced comprehensive class action litigation (w. e. f. January 2005) to assist investors to fight against securities violations. The CLSNACGA has also observed that unfortunately, no market has yet introduced mandatory “Voting by Poll” rather than a simple “Show of Hands” for all resolutions at shareholders meeting. Only Hong Kong and Taiwan are rare examples of markets that require ‘voting by poll’ for major resolutions. A serious matter is also observed that only Singapore and Taiwan and, to a lesser degree, Korea has regularized that make it easy to remove directors who convict fraud and other serious corporate crimes.

Table 1. Rules and Regulations of Corporate Governance in Asian Nations

Name of the country	P ₁ (Reporting of annual result with in two months)	P ₂ (Reporting deadline shortened)	P ₃ (Quarterly report mandatory)	P ₄ (Class action law suits permitted)	P ₅ (Voting by poll mandatory)	P ₆ (disclosure of ownership state above 5%)	P ₇ (disclosure by directors and controlling share holders)	P ₈ (Removal of directors by share holders)	P ₉ (Share option expensing mandatory)
China	×	×	S	S	×	√	√	S	×
Hong Kong	×	×	×	×	S	√	√	S	√
India	×	√	√	×	×	√	√	×	S
Indonesia	√	√	√	×	×	S	×	S	S
Korea	×	×	√	√	×	√	√	×	×
Malaysia		×	√	×	×	√	√	S	×
Philippines	×	×	√	×	×	×	√	S	√
Singapore	√	√	√	×	×	√	√	√	√
Taiwan	×	×	S	S	S	×	S	√	S
Thailand	√	S	√	×	×	√	√	×	×

Indicators: = yes, × = No, S = Somewhat

Overall, regarding rules and regulations, Singapore is rated on No I (7.9%), followed by Malaysia (7.1%), and Honk Kong and India (6.6%) by CLSA+ACGA ranking.

Source: CLSA Asian - Pacific Markets Asian Corporate Governance Association Report 2013.

Calculated value of 't' 4.82

Table value of critical region at 5% ('t'0. 05) =2.306

Significant difference between rules and regulations (with regard to CG) in Asian markets.

II. Enforcement of Rules and Regulations

As we know from table I that no doubt, Singapore, Malaysia, Hong Kong and India have declared as Rank I, II and III respectively in framing rules and regulations on corporate governance, but only Hong Kong and Singapore have independent commission to overseas the enforcement of all these rules and regulations on corporate sector, as shown below.

Table 2. Enforcement of Rules and Regulations of Corporate Governance in Asian Economies

Name of the country	P10 (Independent commission against corruption)
China	X
Hong Kong	√
India	S
Indonesia	X
Korea	S
Malaysia	S
Philippines	X
Singapore	√
Taiwan	X
Thailand	X

Source: Compiled from CLSA Asia – Pacific Market, Asia Corporate Governance Association 2013.

III. Politician and Regulatory Environment in Asia Economies.

As far as political and regulatory environment is concerned for promoting the corporate governance in Asian economies, only Hong Kong has statutory regulator i.e. Securities Commission which is autonomous of government not the part of finance ministry, while the other nations have no doubt Securities Commission but it is a autonomous of government up to some extent.

Table 3. Political and Regulatory Environment of Asian countries

Name of the country	P11 (Is securities commission autonomous of government or not)
China	S
Hong Kong	√
India	S
Indonesia	X
Korea	S
Malaysia	S
Philippines	S
Singapore	S
Taiwan	S
Thailand	S

Source: CLSA Asia Pacific Market: Asian Corporate Governance Association Report 2013.

III. Accounting and Auditing Practices

Table 4 presents the accounting and auditing practices adopted by the corporate sector of the Asian economics.

Table 4. Accounting and Auditing Practices in Asian countries

Name of the country	P ₁₂ (Disclosure of consolidated accounts)	P ₁₃ (Disclosure of segment reporting)	P ₁₄ (Disclosure of connected & transactions)	P ₁₅ (disclosure of audit & non audit fees)	P ₁₆ (Policy of re-conciliation with international standards)
China	√	√	√	√	√
Hong Kong	√	√	√	√	√
India	√	√	√	√	S
Indonesia	√	S	√	X	S
Korea	√	√	√	√	S
Malaysia	√	√	√	√	√
Philippines	√	√	S	S	√
Singapore	√	√	√	S	√
Taiwan	S	S	√	√	S
Thailand	√	√	√	√	√

Source: Compiled from CLSA Asia- Pacific Market, Asian Corporate Governance Association Report 2013.

Calculated value of $t = 1.013$

Table value of critical region at 5 % (t at 0.05) = 2. 776 No significant difference between accounting and auditing practices adopted by the corporate sector of Asian nations.

It is observed from table 4 that almost all the Asian nations have accounting standard regarding disclosure of consolidated accounts segment reporting, connected transactions and audit and non-audit fee paid to the external auditor (except Indonesia). Most of the Asian markets have improved their accounting standards into line with international norms but there are still significant discrepancies in India, Indonesia, Korea and Taiwan For e.g. in India, the accounting standards for software companies, mergers and acquisitions ESOP, disinvestment, environment accounting, etc are not in line with International GAAP More over, ICAI has issued 29 accounting standards till date where as US GAAP and International GAAP has issued 41 and 41 accounting standards respectively till date. Same is the case of Indonesia where the adoption of accounting standards is halfhearted?

IV. Institutional Mechanism and Corporate Culture

The table 5 presents the role of institutional as well as retail investors for promoting the corporate governance in Asian markets.

Table 5. Institutional Mechanism and Corporate Culture in Asian Countries

Name of the country	P ₁₇ (Role of institutional investors)	P ₁₈ (Role of retail investors)	P ₁₉ (Role of retail investor's Associations)
China	X	X	X
Hong Kong	S	√	S
India	S	S	√
Indonesia	X	X	S
Korea	S	√	√
Malaysia	S	S	S
Philippines	X	X	X
Singapore	S	√	√
Taiwan	S	X	X
Thailand	S	X	X

Source: Compiled from CLSA Asia – Pacific Market, Asia Corporate Governance Association Report 2013

Calculated value of 't' = 6.491

Table value of critical region at 5% (t_{0.05}) = 4.303

Significant difference with regard to institutional mechanism and corporate culture of corporate sector of Asian nations

So far as the role of institutional investors are concerned for the promotion of corporate governance practices, it is surprised to see that it is almost negligible in case of China, Indonesia and Philippines and in lesser extent prevailing in case of the rest of the Asian markets for e.g. in Thailand, the institutional investors such as asset management firms, LIC, trusts etc have collectively managed 23 Bn \$ to form the Institutional Investors for promoting the better corporate governance in a country.

The retail investors of Hong Kong, Korea and Singapore are fully engaged in promoting better corporate governance practices in their nations, and in lesser extent in case of Malaysia and India. It is cause of worry that only Singapore, Korea and India have shareholders activist organization for the promotion of corporate governance practices and to a lesser degree Indonesia and Malaysia. For e.g. in Singapore the 'Securities investor's Association' works with companies to nominate independent directors and also have plan to collaborate with fund managers to improve corporate governance in their companies in which they invest.

5. OVERALL TESTING OF HYPOTHESIS

Is there any significant difference between overall corporate governance practices prevailing in Asian countries or not, it is tested through “t” test. The calculated value of ‘t’ is 5.508. Whereas the tabulated value of ‘t’ is 2.101 at 5% level of significance. So broadly rejecting the null hypothesis and accepting the alternative hypothesis that there is a significant difference between corporate governance practices in the corporate sector of Asian countries.

6. CONCLUSION

Although the accounting and auditing practices adopted by the corporate sector of Asian economic are almost similar, and they have also policy to follow accounting standards in line with international norms, but framework and enforcement of rules and regulations are concerned, there are discrepancies in Asian nations. It is very surprised to know that only one country i.e. Singapore has statutory regulatory body. So far as the role of retail investors as well as institutional investors are concerned, only Singapore, Korea, India and to lesser extent Hong Kong and Malaysia, the investor have taken the lead and have started playing a crucial role for promoting corporate governance practices in these nations. Though, the attempts made are highly appreciable, yet more efforts are required to make corporate governance practices more effective as given below

- I. There should be adequate law relating to the functioning of business enterprises, covering the entire spectrum from registration of companies, their structure and settlement of disputes, law relating to capital market and punishment for bad practices like insider trading and so on.
- II. There should be increased reliance on self- regulatory mechanism, since legislation can only ensure compliance with the letter of law and not the spirit
- III. The regulator should see that the recommendations of various committees are not just on paper, but the companies should implement them,
- IV. (iv) There must be complete co-operation between Department of Company Affairs (DCA) and different industry associations, institutions such as ICAI, ICWA, etc for framing policies and guidelines regarding corporate disclosure,
- V. (v) The corporate sector should adhere to international practices,
- VI. (vi) Industrial associations and regulators like as FICCI, etc should continuously study the best corporate governance practice of other nations since there is orientation of listing of companies at stock exchanges of other nations.
- VII. (vii) The role of media should be increased so that better corporate governance practices of the other nations may be incorporated in their own corporate culture.

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