

# Corporate Governance in Asia

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# Changes in Corporate Governance in Asian Region

- Convergence in regulations has taken place after 1997 Crisis
  - Globally compatible rules and regulations are introduced after 1997 economic crisis
  - New rules and regulations are intended to
    - Enhance transparency and accountability
    - Strengthen minority shareholders' right
  - Outside directors and audit committee are required in most of East Asian countries
- Poor corporate governance practices despite improvements in regulations

# Corporate Governance Reforms in East Asian Countries, McKinsey Quarterly, 2004

- Outside directors and audit committee are required in most of East Asian countries after the 1997 crisis.

**EXHIBIT I**

**Asia steps up**

Independent director and audit committee requirements

	1997		2003	
	Independent directors?	Audit committees?	Independent directors?	Audit committees?
China			✓	✓
Hong Kong	✓		✓	✓
India			✓	✓
Indonesia			✓	✓
Malaysia	✓	✓	✓	✓
Philippines			✓	✓
Singapore	✓	✓	✓	✓
South Korea			✓	✓
Taiwan			✓	✓
Thailand			✓	✓

Source: Asian Corporate Governance Association

# Why poor CG practices despite an improvements in regulations?

- Enforcements of rules and regulations are weak
  - Supervisory agency is inactive
  - Prosecutors are not independent from business influence
  - Judges are not properly trained and not independent
- Shareholders are inactive
  - Local institutions are not independent
    - interest conflict with investment banking business
  - Foreign institutions are not willing to engage

I Know  
the LAW

I Know  
the JUDGE



# Why Poor Corporate Governance in Asia?

- Bank-financing is stronger than capital market financing, but
  - Banks have its own poor governance problem
  - Bank's capacity in CG risk management is weak
- Moral hazard of controlling shareholder
  - Family values control more than share value
  - Unfair related party transactions
- Entrenched ownership structure
  - Concentrated ownership via pyramidal or circular ownership
  - Disparity between cash right and voting right

# Is Poor Corporate Governance in Asia due to Confucian Culture?

- Partly yes, because
  - Hierarchical culture imposes submission to “order” from high rank
  - Royalty to organization is sometimes more “valued” even if it conflicts with the principle
- But, the final answer is No
  - Confucius teaches “honesty”
  - Confucius never condone “stealing” from others
  - Confucius teaches “transparency” and “accountability”
  - This is true for all cultures and religions

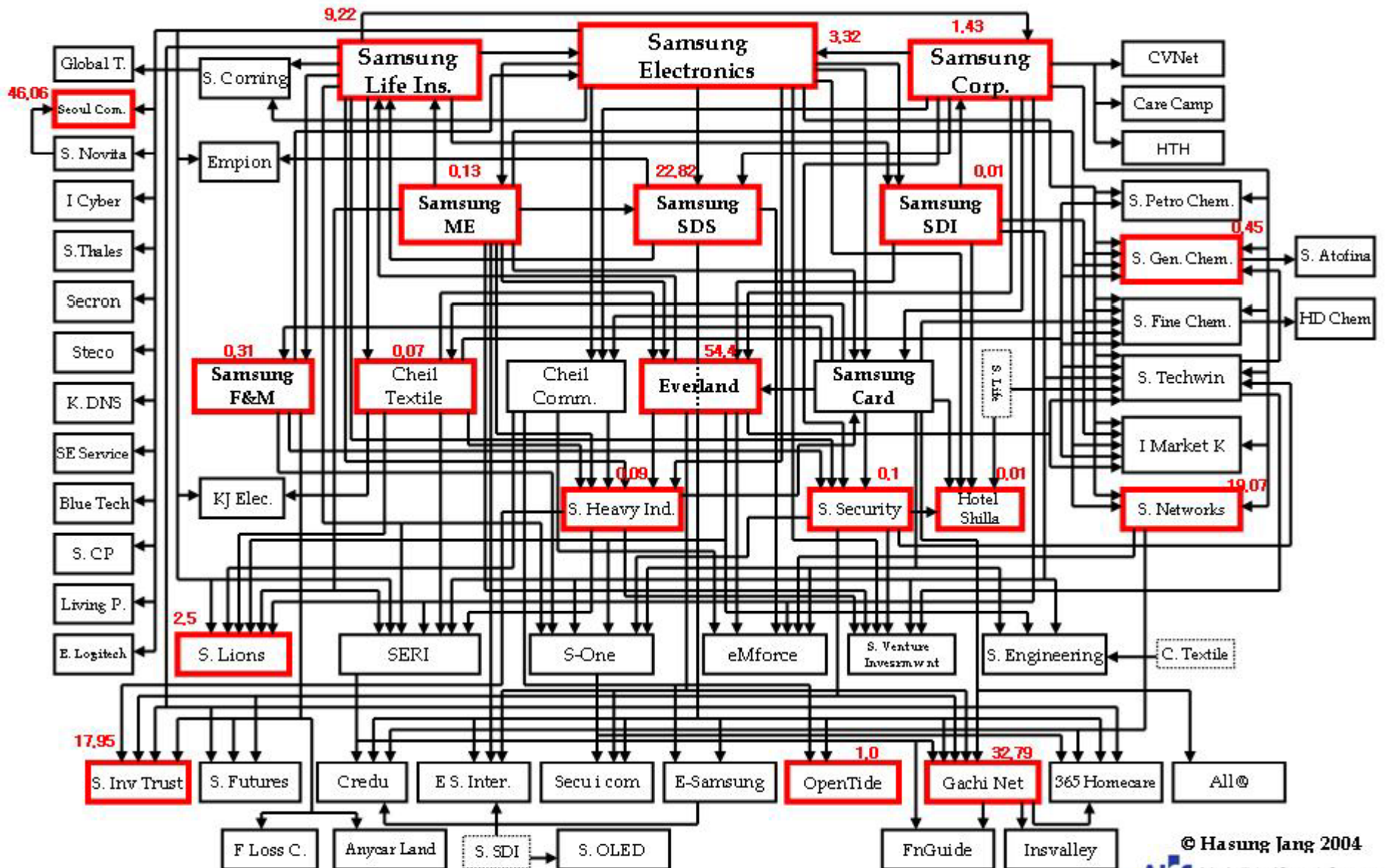
# Example of Ownership Structure: Samsung Group

- Samsung group has 63 affiliated companies
- Group is under the control of Lee Family
- Lee family owns less than five percent of shares, but has an ultimate control on all affiliated companies
- The following figure shows complexity of ownership structure that is a mix of circular and pyramidal equity holdings among affiliated companies
  - In figure, companies in red box are public companies. Others are private companies.





# Samsung Group Equity Holdings



# Corporate Governance Scoring Project on 9 East Asian Economies

PECC project in 2005 by Stephen Cheung and Hasung Jang

## Two surveys

- Survey One: Rules and Regulations on CG
  - Stock-taking exercise by local experts
  - Based on 5 OECD principles
- Survey Two: Market perception on CG practice
  - Questionnaire distributed by Investment Fund Association
  - Fund managers and analysts with investment exposure in the region

# Corporate Governance Scoring Project on 9 East Asian Economies

PECC project in 2005 by Stephen Cheung and Hasung Jang

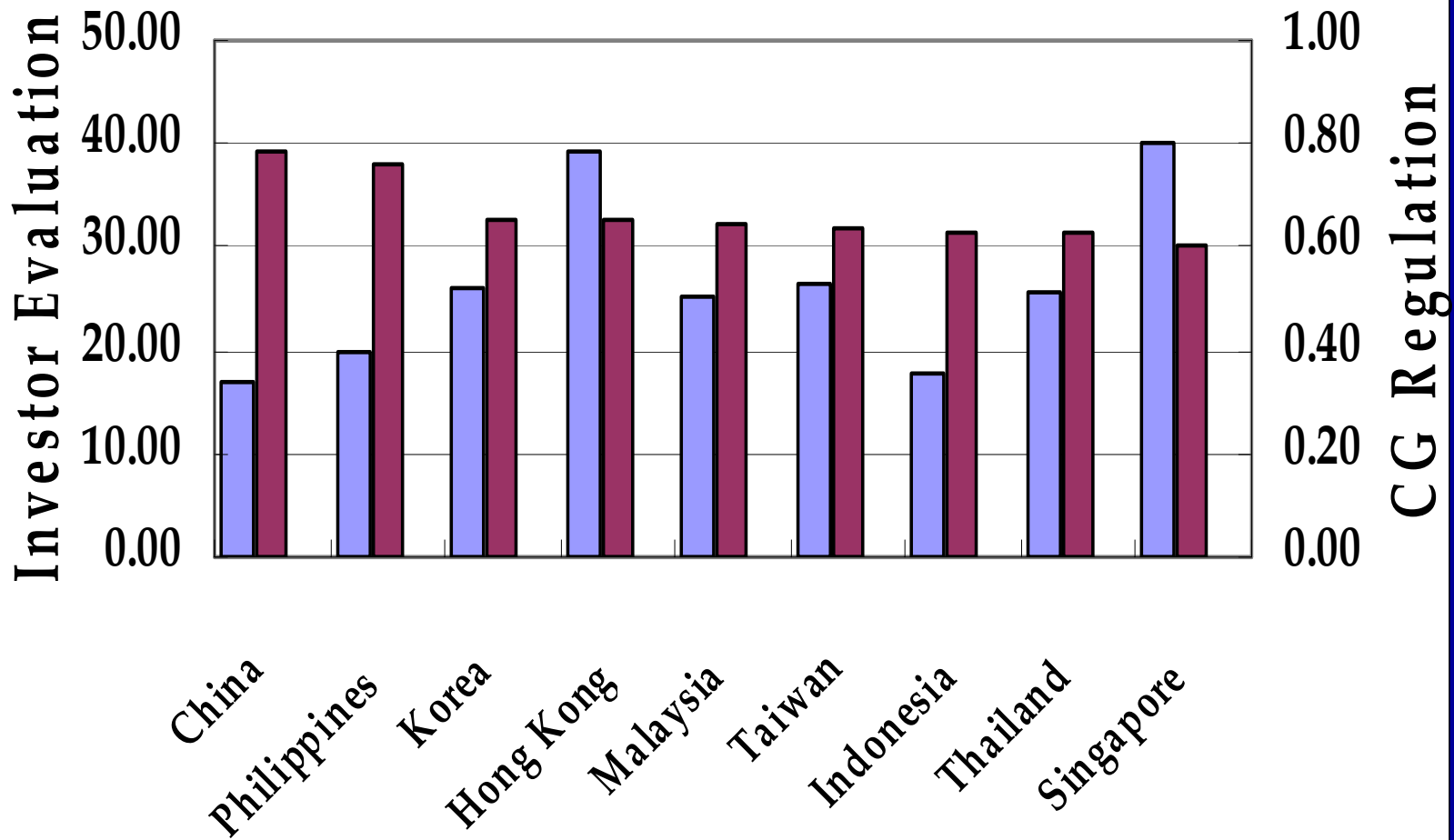
- Two sets of surveys
- Survey One: Regulation on CG
  - Stock-taking exercise by local experts
  - Questionnaires are based on OECD principle
  - 103 questions: 55 for scoring, 48 for confirmation
- Survey Two: Market perception on CG practices
  - Fund managers and analysts with investment exposure in the region
  - 10 questions, 25 responses

# Corporate Governance Scoring Results on 9 East Asian Economies

	Regulation	Investor Evaluation
China	0.79	17.03
Philippines	0.76	19.75
Korea	0.66	26.11
Hong Kong	0.66	39.24
Malaysia	0.64	25.25
Taiwan	0.63	26.26
Indonesia	0.63	17.60
Thailand	0.63	25.64
Singapore	0.61	40.18

# Corporate Governance Regulations and Investor's CG Evaluation

9 East Asian Economies PECC project in 2005



# CG Scoring Results on 9 East Asian Economies

- Rules and Regulations
  - China and Philippines score the highest
  - Singapore scores the lowest
  - Other countries in the middle are statistically indifferent
- Market Perception on CG Practices
  - Singapore and Hong Kong are in the high group
  - China, Indonesia and Philippines are in the low group
  - Rest of countries in the middle group are statistically indifferent

# CG Scoring Results on 9 East Asian Economies

- Rules and Regulations are fairly the same
- Practices, however, are quite different
- Significant disparity between rules and practices
  - Countries with more rules and regulations have good practices: China and Philippines
  - Countries with less rules and regulations have good practices: Singapore, Hong Kong
- Implications
  - Causality: Countries with poor practices introduced more regulations
  - Without proper enforcements, rules and regulation does not mean much

# What Will Expedite Improvement in Corporate Governance?

- Government
  - Effective enforcement of regulations
- Legal System
  - Fair and effective court system
  - Fair and independent prosecution
- Corporation
  - Adaptation of global standard
- Market
  - Pro-active role of institutional investors
  - Shareholders exercise its rights



# Alternative Approaches in Korea

- Shareholder Activism
  - NGO minority shareholder activists since 1997
  - Group of two dozens volunteer professionals
- Corporate Governance Fund
  - Korea Corporate Governance Fund
  - To be established in Spring of 2006 with US\$300 million
  - Investment Objective is enhancing share value by improving CG

Apology for not being present.

Thank you!