
Comparative corporate governance regimes around the world

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Abstract

The earlier studies categorized corporate governance systems into two broad dichotomous categories; Continental European and Anglo American Corporate Governance Systems which accounts for corporate governance in Japan only (Credit Lyonnais Securities Asia (CLSA), 2002). This has necessitated a need for further study on corporate governance that redefines these two frameworks to fit into today's realities in different countries. To this end, this essay finds out that market corporate governance regimes are more dominant in developing countries such as the UK and the US while relationship corporate governance such as bank lending corporate regimes is more common in developing countries such as Malaysia, Indonesia and Korea. Further, this essay finds out that the government affiliated regimes are more common in countries like China and Singapore.

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Introduction

Feeble corporate governance, lack of adequate financial disclosure and inadequate corporate transparency have been cited as the major reasons for the financial crisis that rocked the world's nations in 2008. Claessens, Djankov, and Lang (2000) in particular points out that the pressure being instilled on the global market by the international agencies for adequate disclosure of financial information is on the rise. Thus international firms that want to venture into the global capital market will have to adhere to the tough requirements for financial reporting. In lieu of the above facts, the subject of corporate governance is a major topical issue that should be a major concern for the regulators, institutes, the government and policymakers. As such I am interested to compare the various forms of corporate governance as implemented in different countries. The study will commence with a background literatures on the various forms of corporate governance and proceed to analyse the key findings as drawn from the first section while the conclusion will be made in the last section of the essay.

Background Literature

The subject of corporate governance has elicited much reaction among scholars. Thus a study into the various forms of corporate governance, the appreciation of legal, political and institutional environment that could deter the maximum execution of solution to an effective regime of corporate governance is of utmost importance. In lieu of this, this section will give a synopsis on the comparison between various corporate regimes among different countries. More specifically, a discussion on the market based, bank lending, as well as government-affiliated corporate regimes, will dominate the major discussion in this section.

Market-Based corporate regimes

Dispensed ownership and efficient equity are some of the features that are evident under market-based corporate governance regime. According to Claessens, Djankov, and Lang (2000), developed countries such as the UK, Australia, Canada, and the USA are some of the countries that fall under this type of regime. These countries have owned corporations which are diffuse in nature as well as highly developed capital markets. In essence, as a guarantee to the protection of the investor, these regimes by their definitions necessitates a lot of transparency. Even though Japan is classified by Liu (2006), as the country holding the biggest share followed by Taiwan and Korea regarding widely held corporations, in terms of Asian corporate governance regimes, it is nevertheless grouped as non-market based corporate regimes.

Bank lending corporate governance regime

According to Cravens and Wallace (2005), this type of regime falls under relationship based corporate governance regimes and is most common in emerging markets such as Malaysia, Indonesia, and Korea where the government guarantee loans given to firms in specific industries. In these regions, the government often intensively intervenes in the bank's lending decisions thereby leading to loss of interest in the derivation of good disclosure. More specifically, as posited by Black (2007) the members of the family, bankers, as well as some influential political figures, often exert much control over the Korean Chaebols leading to loss of financial transparency in these banks. Moreover, Japan is also confronted with a similar problem due to the presence of many Japanese Keiretsus or conglomerate who have close ties with the banks. Claessens et al. (1999) also lament that, as opposed to objectively assessing the company's prospects, the decisions on bank lending's in these countries are made primarily by the relationship which is characterised by ineffective mechanisms of corporate governance as well as the absence of financial transparency in this regime.

Government-affiliated corporate governance regime

This is also another form of relationship based corporate governance regime and is most common in China and Singapore. As posited by Arjunan and Low (2008), China has the highest ownership by the government with its ownership in Shenzhen and Shanghai stock market being 64% and 65% of the total shares issued respectively. Further, as stated by Gul and Kealey (2009), the non-freely tradable shares of the legal persons or state account for most of the listed firms in China. In terms of state ownership, Singapore comes second after China. As observed by Gul (2009), about 80% of the listed firms in Singapore are directly or indirectly controlled by the state. However, in 1990, this state ownership was significantly reduced through a program of privatization. The corporate governance regime in China has been adversely affected by these government-affiliated firms in China and Singapore. Nevertheless, with the desire for the attraction of foreign capital like institutional investors as well as the emergence of World Trade Organisation in China, the government of these countries is developing codes of corporate governance that will enable them to overwhelm the difficulties arising from ownership by the government (Hong Kong Society of Accountants, 2007).

Analysis

By virtue of the fact that laws in emerging markets are often ineffectively enforced or are often not well defined, the protection of the investor, therefore, becomes of utmost significance in these countries. In particular, this is often true when the minority shareholder's right are under threat. For instance, in the case where the majority shareholders possess much influence in the operations of a company are using that influence to extort money from the minority shareholders through scrupulous transactions. This is especially so in Asian companies where very powerful political figures hold major ownership of firms. Thus, to protect the wealth of the investors, extensive rules and regulations with regards to corporate governance need to be imposed for companies listed in the stock market. In line with these developments, a prescriptive approach should be implemented by countries such as Taiwan and Malaysia because of their strong belief in the heritage of civil law which stresses the codification of regulations.

However, countries such as Singapore as recommended by Gul (2009) should embrace a balanced approach which is commonly adopted in the USA and move away from a prescriptive approach. In essence just as the USA, Singapore also has got a long history of business and is exhibited by developed market and economy, adequately defined laws with strong enforcement that are available to investors to protect the shareholder's rights.

Conclusions

In conclusion, this essay takes the view that the different forms of corporate governance which are relationship-based in terms of government ownership and bank lending relationship in emerging markets could easily lead to manipulation of earnings by managers of companies and extorting wealth from minority shareholders. On the other hand, the market-based form of corporate governance which is most common in developed countries such as the UK is viewed as a fair form of corporate governance since it is transparent and protects the rights of every shareholder of a company. To this end, this essay takes a position that market-based corporate governance because of its transparency is the best form of corporate governance which the developed countries should work towards implementing.

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