This article investigates the relation between corporate governance and business ethics in the Asia-Pacific region. It draws on four examples of countries in the region (Australia, China, Singapore, and India), not because they are representative of certain regional characteristics, but as a means of reflecting on the diversity in this region. These countries display pronounced differences in terms of inter alia, historical development, cultural and social factors, legal system, corporate governance model, political system, and economic development. The complex interaction of all these considerations provides the context for corporate governance and business ethics in each of the countries. The article highlights different orientations to stakeholder management and integrity behavior in the boardroom and executives' offices. Although globalization and financial market hegemony suggests a convergent model is theoretically desirable, this research suggests that the human capacity to protect diversity and enshrine regional and local interests seems likely to inhibit rapid change.

Keywords: corporate governance; corporate law; business ethics; governance systems; cross-cultural management; Asian business; stakeholder theory; agency theory; corporate social responsibility

As one considers the characteristics of corporate governance and the impact thereof on stakeholder engagement and business ethics in the Asia-Pacific region, one is struck by the wide diversity of corporate
governance models and social and cultural differences that exist in this very large geographic area. This means that in an article of this type, it is only possible to provide an overview of any individual country, and it becomes virtually impossible to draw meaningful generalizations regarding the region as a whole. The approach we take in this article is to draw on four examples of countries in the region, not because they are representative of certain regional characteristics but because, in themselves, they are representative of the diversity that may be found in the Asia-Pacific region. It may then be possible to group other countries with each of the four examples to develop a more textured picture of corporate governance and business ethics in the region.

The four countries we chose to consider are Australia, China, Singapore, and India. These countries display pronounced differences in terms of inter alia, historical development, cultural and social factors, legal system, corporate governance model, political system, and economic development. It is the complex interaction of all these considerations that provide the context for corporate governance and business ethics in each of the countries to be considered.

OVERVIEW OF THE GOVERNANCE SYSTEMS

From the point of view of legal system, Australia, Singapore, and India are all common law jurisdictions in the sense that their legal foundations and principles are based on the English system, having been transplanted during the colonial era. The legal system in China, especially in relation to company law and corporate governance, has largely developed only in very recent times. To some extent, it draws on German law and practice but, to a large degree, reflects the social and economic experience of China under the Communist Party and the changes in policy that have occurred over the past 20 years.

At the same time, the three common law countries differ widely in their stage of economic development. Table 1 identifies wide differences in respective populations and per capita wealth.

China’s legal and commercial institutions and practice have developed in the context of, and have been shaped by, the Communist Party and the prevalence of state-owned enterprises. To some extent, a similar history occurred in India that was also dominated by state-owned enterprises (SOE), albeit to a lesser extent than China. Until recently, both these countries were largely closed to foreign investment but have opened up into globalization, an inflow of direct foreign investment, and greater develop-
ment of market economies. Australia and Singapore have longer histories of developing international market economies and have been recipients of large foreign investment for a number of decades.

Australia has a mixed regulatory regime that includes mandatory legislation contained in the Corporations Act 2001 as well as self-regulation whereby listed companies are required under the listing rules to make disclosure to the market, and it is then up to the market to draw its conclusions. This can be seen in the Australian Stock Exchange’s Listing Rule 4.10.3 that requires disclosure of corporate governance practices adopted by a company in its annual report and an explanation of any departures from best practice as set out in the Principles of Good Corporate Governance and Best Practice Recommendations (Australian Stock Exchange Corporate Governance Council, 2003).

Singapore’s corporate governance is also based on the Anglo-American model but departs from this in several important respects. Government involvement in the corporate sector is far greater than that usually associated with this corporate governance model. The government is a major shareholder in many large Singapore companies, and government-controlled companies play a major role in many key industries.

The CLSA Emerging Markets and the Asian Corporate Governance Association survey, CG Watch: Corporate Governance in Asia 2003 ranks several Asian markets by their corporate governance practices (Asian Corporate Governance Association, 2003a). China, India, and Singapore were ranked as follows:

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>India</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules and regulations</td>
<td>5.0</td>
<td>8.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Enforcement</td>
<td>4.0</td>
<td>6.0</td>
<td>7.5</td>
</tr>
<tr>
<td>Political and regulatory</td>
<td>5.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption of International</td>
<td>5.0</td>
<td>7.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Generally Accepted Accounting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principles (IGAAP)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1
Comparative Country Statistics

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (in millions)</th>
<th>GDP (US $ per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>19.91</td>
<td>219,000</td>
</tr>
<tr>
<td>China</td>
<td>12.90</td>
<td>5,000</td>
</tr>
<tr>
<td>India</td>
<td>1,065</td>
<td>2,900</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.35</td>
<td>23,000</td>
</tr>
</tbody>
</table>

This survey did not include Australia. For comparative purposes, similar ratings for slightly different variables were determined by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1996, table 5, p. 46) of 49 countries classified according to legal origin (La Porta et al., 1996, table 5, p. 46). The following ratings were given in relation to various aspects of enforcement of law for Australia, India, and Singapore:

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>India</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency of judicial system</td>
<td>10.00</td>
<td>8.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Rule of law</td>
<td>10.00</td>
<td>4.17</td>
<td>8.57</td>
</tr>
<tr>
<td>Corruption</td>
<td>8.52</td>
<td>4.58</td>
<td>8.22</td>
</tr>
<tr>
<td>Risk of expropriation</td>
<td>9.27</td>
<td>7.75</td>
<td>9.30</td>
</tr>
<tr>
<td>Risk of contract repudiation</td>
<td>8.71</td>
<td>6.11</td>
<td>8.86</td>
</tr>
<tr>
<td>Rating on accounting standards</td>
<td>75</td>
<td>57</td>
<td>78</td>
</tr>
</tbody>
</table>

These tables indicate that in relation to several indicators of the corporate governance environment, rule of law, and enforcement Australia and Singapore rank relatively high. This accords with the central conclusions put forward by La Porta et al. (1996) that investor protection is generally greater in common law countries than in countries whose legal systems originated in France and, to a lesser extent, those stemming from the German model. Law enforcement is of higher quality in German and common law origin systems than in French origin models. The quality of law enforcement also bears a relationship to income per capita. Hence, law enforcement and transparency is relatively poor in China compared to Australia and Singapore. PricewaterhouseCoopers has estimated that these factors are equivalent to an extra tax on business of 46% ("In Praise of Rules," 2001).

An illustration of the operation of commercial law in China arose in October 1998. The investment arm of the Guangdong province defaulted in repayment of loans from foreign banks. The banks had assumed that the debts were backed by the central government. In fact, the central government made it clear that it had no intention of underwriting the debts of provincial government corporations. After 2 years of inconclusive litigation, it became clear that the Bankruptcy Code was of no assistance, and the

India also has a poor system of corporate insolvency (Goswami, 2000, pp. 19-23). According to Goswami (2000), 32% of company liquidations took more than 20 years and 59% took more than 10 years to complete. This has important implications for corporate governance because in China and India, management may act in an inefficient way and undertake excessively risky investments without the fear of insolvency and ultimate liquidation when creditors pursue their rights. This is also highly detrimental to the countries’ financial sector with a high cost of capital and a significant proportion of nonperforming loans. Financial institutions often allocate capital to nonoptimal uses.

A widespread response to poor investor protection is high concentration of share ownership (Goswami, 2000, table 1, p. 13). On the other hand, those countries such as Australia with good investor protection and adherence to high-quality accounting standards tend toward having low ownership concentrations. Australia, however, appears to have greater concentration of share ownership than in the United States and United Kingdom (Stapledon, 1999). Singapore appears to depart from this generalization as it exhibits high ownership concentration despite high ranking in rule-of-law and accounting standards. This may be explained by the predominance of family-controlled companies as well as heavy involvement of government in many listed companies. Companies in India also show high concentration of ownership. This may be partly explained by poor investor protection and law enforcement. It is also significantly influenced by the social system that has identified the merchant community as a specific caste group. Community and family networks have had a long tradition in India and, as such, have affected the structuring of businesses. Thus, the Anglo-American model has been superimposed over a cultural framework built up over millennia. Family- and government-controlled companies are very common. In addition, India has low ratings on rule of law variables and low income per capita.

THE NATURE OF THE CORPORATION

The basis of the Anglo-American model is the primacy of the shareholders as the dominant stakeholders able to exert substantial influence on managerial decision making. In its pure form, this has been described as the contractarian model that views the corporation as a nexus of contracts negotiated by self-interested stakeholders. In the pure model, legal constraints and regulation imposed on managers are given less emphasis than
voluntary contracting and the operation of market forces as a means of aligning the interests of managers and shareholders (see Fama & Jensen, 1983; Jensen & Meckling, 1976). The alternative view is to see the corporation as a separate entity capable of doing harm and good in much the same ways as an individual. Rules and legal obligations are required to ensure that corporations discharge their implicit obligations to act in the interests of the society. This has been described as the communitarian view, which sees the corporation as an entity connected to society. In return for the privileges of corporate status, the corporation owes a sense of social responsibility to a wide range of stakeholders.¹

In between these extremes, the notion of the firm as a community of interests for its key operational stakeholders, its managers, and its employees has had a long history in India. Kipling’s (1994) words in a short story written at the end of the last century gives a strong sense of this, which, although referring primarily to the English expatriate in India, still resonates today:

They were nearly all sons of old employees, living with their parents in white bungalows off Steam Road or Church Road or Albert Road—on the broad avenues of pounded brick bordered by palms and crotons and bougainvilleas and bamboos which made up the railway town of Ajabpore. They had never seen the sea or a steamer; half their speech was helped out with native slang; they were all volunteers in the D.I.R.’s Railway Corps—grey with red facings—and their talk was exclusively about the Company and its affairs.

They all hoped to become engine-drivers earning six or seven hundred a year, and therefore they despised all mere sit-down clerks in the Store, Audit and Traffic departments, and ducked when they met at the Company’s swimming baths.

There were no strikes or tie-ups on the D.I.R. on those days, for the reason that the ten or twelve thousand natives and the two or three thousand whites were doing their best to turn the Company’s employment into a caste in which their sons and daughters would be sure of positions and pensions. Everything in India crystallises into a caste sooner or later - the big jute and cotton mills, the leather harness and opium factories, the coal-mines and the dock-yards, and, in years to come, when India begins to be heard from, as one of the manufacturing countries of the world, the labour unions of other lands will learn something about the beauty of caste which will greatly influence them. (p. 56)

Although the models noted above nowhere exist in their pure form, we may say that in terms of the prevailing concept of the firm, Australia bears close similarity to the corporate governance models of the United States and United Kingdom. The corporation is largely seen as primarily con-
cerned with the creation of shareholder wealth. The law protects minority shareholders with extensive legislative duties imposed on directors and varied shareholder remedies. It seeks to facilitate a level playing field in financial markets with requirements for continuous disclosure of price-sensitive information, heavy penalties for contraventions, and the monitoring of insider trading and detailed requirements for disclosure of corporate governance practices. Takeovers (mergers and acquisitions) are encouraged as a means of imposing market discipline on managers and enhancing shareholder value. Takeovers are regulated in a way that seeks to balance the interests of encouraging takeover bids while ensuring that all target company shareholders are fully informed and given equal opportunity to participate in the benefits of the takeover.

The main objective of corporate governance regulation in Australia is to promote the efficient operation of financial markets, and a significant part of this is to protect minority shareholders from exploitation by dominant shareholders. Perhaps more important than the regulation itself is the quality of enforcement and the strength of the supporting institutions and gatekeepers. In Australia, the corporate regulator is the Australian Securities and Investments Commission (ASIC). It is very active in enforcement of company law including bringing recent legal proceedings against several prominent company directors. The audit profession is generally highly skilled reflecting a developed education system, and there is an adequate pool of suitably skilled independent directors.

Singapore has a corporate law system that appears very similar to Australia’s. In fact, the basis of the Singapore Companies Act is the Australian legislation of the 1960s. The major difference between the two countries lies in the dominance of tightly held family-controlled and government-controlled listed companies. This means that there is a much higher concentration of share ownership in large Singapore companies than is the case in Australia.

**IMPORTANCE OF STOCK MARKETS**

Although market capitalization gives a broad snapshot of stock market importance, it should also be borne in mind that markets in China and India are more thinly traded than in Australia and Singapore. This makes the China and India markets less efficient in pricing and more vulnerable to improper market practices especially bearing in mind the poor quality of market regulation and law enforcement.
Market Capitalization of Stock Exchanges 1999 ($ billions)

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia Stock Exchange (ASX)</td>
<td>$398</td>
</tr>
<tr>
<td>China</td>
<td>$338</td>
</tr>
<tr>
<td>Bombay (India)</td>
<td>$236</td>
</tr>
<tr>
<td>Singapore</td>
<td>$194</td>
</tr>
</tbody>
</table>

Taking population size into account, it is clear that stock markets play a relatively more important role in Australia and Singapore than in China and India. This is in accordance with the assertion that stock markets play a more important role in Anglo-American countries and Japan (Weimer & Pape, 1999). Most Asian companies have relatively low equity and are therefore relatively highly geared, relying on borrowing to raise capital. In many cases, conglomerates own banks or other financial institutions to facilitate raising of capital. This has implications for corporate governance in each country because companies in countries where the stock exchange is relatively important tend to raise capital by raising equity, and this can only be achieved if there is adequate investor protection, transparency, and enforcement of law.

**THE IMPORTANCE OF THE SHAREHOLDER**

In Australia, the dominant stakeholder is the outside shareholder. In India and China, the SOEs and family-controlled companies emerged as the prime type of corporation in the last half of the 20th century. This means that boards and management are often mindful of the interests of these dominant so-called owner-managers, sometimes at the expense of minority investors. Singapore is somewhere in between. To some extent, it exhibits the Anglo-American characteristic of shareholder primacy. The importance of government shareholdings results in the government being a major financial stakeholder as well as a controller and/or regulator. The effect of shareholder, government, and other stakeholder influence, and how they all affect on the corporation, are discussed below.

**MARKET FOR CORPORATE CONTROL**

A major characteristic of Anglo-American systems of corporate governance is the existence of an active market for takeovers. This is perceived as playing a vital corporate governance role because of the discipline it imposes on boards and management. Theoretically, poor-performing
companies suffer a fall in share price that encourages a bidder to make an above-market price bid in the expectation that the assets of the acquired company can be more efficiently utilized. The result of a hostile takeover is that inefficient incumbent management will usually be replaced by more efficient management appointed by the successful bidder. Shareholders are offered a better price than they could hope to achieve under the existing board. This results in greater alignment of interests between management and shareholders. An active market for corporate control benefits shareholders who are able to sell shares in poorly performing companies at above-market prices.

Supporting the view that financial markets strengthen efficient usage of corporate assets is the belief that even if a takeover does not occur when assets are poorly managed, shareholders will sell off their holdings—the strategy known in the finance industry as “taking the Wall Street walk.” Although it is possible with relatively low percentage holdings in corporations and liquid stock markets, it is less feasible when fund managers manage large holdings in major corporations. The size of their holdings cannot simply be “dumped” without considerable value loss. This gives rise to an alternative view that fund managers are being forced into active governance-oversight roles as their capacity to trade securities of poorly performing corporations is diminished. This is the basis for the growth of the finance industry’s interest in corporate governance.

In Australia, takeovers play an important role. Hostile takeovers are less common in Singapore and rare, if not nonexistent, in China. Since 1997 in India, takeover regulation has been reformed; however, although hostile takeovers are not common, they have occurred on several occasions. The financial markets in these countries are “freeing up” and becoming more liquid; however, their evolution is influenced by central governments’ concerns relating to economic stability and employment.

THE REGULATORY MIX

Australia, Singapore, and India all possess corporate governance regulatory regimes that are based on corporation legislation that provides for mandatory minimum standards dealing with matters such as directors’ duties, members’ remedies, shareholder rights at meetings, and default rules for company constitutions. These mandatory rules may be enforced by civil actions brought by harmed parties and criminal proceedings brought by the respective regulators. These minimum mandatory requirements cannot effectively deal with issues relating to matters such as board role, structure, and composition. These functional matters are dealt with by codes of internationally recognized corporate governance best practice
endorsed by the various stock exchanges and directed at listed companies. This constitutes a form of self-regulation because it is not mandatory for companies to follow the best practice principles. The general approach is to require listed companies to disclose in their annual reports the corporate governance practices they have adopted during the relevant year. The listing rules set out detailed endorsed practices, and companies are required to state the extent to which they have adopted these practices. Those companies that depart from the recommended practices are required to explain why they have done so.

The rationale behind this approach is to ensure that the market is informed about a company’s corporate governance practices. At the same time, there is also recognition that appropriate practice may differ from company to company. In particular, smaller listed companies often find it difficult to comply with requirements such as establishment of several board committees where they have relatively small boards.

In Australia, the Corporations Act has undergone substantial reform since the early 1990s. Much of this reform has come under the umbrella of the Corporate Law Economic Reform Program that seeks to put corporate regulation in the context of enhancing economic efficiency. The most recent tranche of reforms (known as CLERP 9) addresses matters such as corporate disclosure and auditor independence and, in some respects, bears similarities to Sarbanes-Oxley in the United States. The ASX established a Corporate Governance Council that issued Principles of Good Corporate Governance and Best Practice Recommendations in March 2003. Listed companies must adopt the large number of recommendations set out in this document or explain why they have not in their annual reports.

Similar developments took place in Singapore where the Singapore Code of Corporate Governance was incorporated into the stock exchange listing rules in 2001 for compliance starting in 2003 (see European Corporate Governance Institute, 2004). As in Australia, listed companies must disclose their corporate governance practices and explain any deviation from the Code.

In India, interest in corporate governance sprang from very low levels before the mid-1990s. The Confederation of Indian Industry (CII), India’s largest industry association, recognized that good corporate governance was essential to enable Indian companies to competitively raise capital. In particular, it was necessary to provide greater disclosure, more transparency, and better shareholder value. It released a voluntary code Desirable Corporate Governance: A Code (Asian Corporate Governance Association, 2003b). This code sets out detailed disclosure requirements and has been largely adopted by many of the largest listed companies. A further
development occurred with the release of a similar code by the main regulator, the Securities and Exchange Board of India (SEBI). Unlike the position in Australia and Singapore, its corporate governance requirements are mandatory and enforceable by the stock exchanges. The question whether corporate governance codes should be voluntary or mandatory has been the subject of debate. It has been suggested that a mandatory regime encourages a “tick the box” approach with the emphasis on form over substance. Whether this arises in India remains to be seen.

China has developed its corporate law to a significant extent since the late 1980s. A code of corporate governance was introduced by the China Securities Regulatory Commission (CSRC; 2002), the national securities regulator. CSRC developed the following guidelines (Asian Corporate Governance Association, 2003c):

- a directive on quarterly reporting in April 2001
- a set of guidelines on the qualification and appointment of independent directors in August 2001
- numerous regulations promulgated over 2001, including rules aimed at enhancing disclosure, improving the functioning of the stock market, outlining rules for inspections of listed companies and management incentive schemes, and so on
- a national code on corporate governance in January 2002
- an amended directive on the form and content of quarterly reports in March 2003

However, there are still serious shortcomings in adopting best practice in corporate governance. The state is still the dominant shareholder of most listed companies. There are few incentives for managers to maximize shareholder value, and managers have relatively little market discipline. There is a tendency for controlling shareholders to engage in related party transactions that are not in the interests of minority investors. Managers are protected from the consequences of inefficiency by implicit government support and weak creditors’ rights. Investors are more interested in levels of government and parent company support than in demanding good corporate governance.

Private equity markets are undeveloped, and the surrounding industries such as institutional investors, auditing and legal professions, analysts, and financial advisers are very much in the early stages of development. Despite corporatization and diversification of share ownership, many of the old structures and political connections have remained intact. Boards of directors often carry out a rubber-stamp role with major decisions made behind the scenes. Boards often lack independence, and the concept of independent, nonexecutive directors is not well understood.
THE EXTENT OF STAKEHOLDER ENGAGEMENT AND ETHICS GUIDELINES

Stakeholder engagement and business ethics concerns in the four countries are growing as corporations grapple with increasingly aware and influential stakeholders. However, before one engages too specifically in determining which groups are being the most influential, one needs to clarify the term *stakeholder* and how it is being used in this discussion. The concept of stakeholder engagement can be seen as the interaction of members of a number of groupings with the organization—those who have a direct economic relationship with the entity as well as those who have an indirect involvement and interest in the entity’s activities. A common list of stakeholders, drawing on the concept of the “triple bottom line” includes

1. **Primary/Direct – financial investors**
   - Shareholder/security holders
   - Banks and other finance providers
2. **Primary/Direct – other financial stakeholders**
   - Employees - Management/Non Management
   - Customers and suppliers
   - Directly involved government agencies such as the Taxation Office and regulators, ASIC, APRA and so on
3. **Indirect – Social**
   - Local communities – Represented by local and state government agencies and lobby groups
   - Regional, national and global communities – represented by NGO’s
4. **Indirect – Environmental**
   - Government agencies such as Environmental Protection Authorities and planning agencies.
   - Non-government bodies representing environmental interests – NGO’s, research institutes, and so on.

This initial framework outlined above is used as a basis for the following review of current stakeholder engagement in the Asia-Pacific region.

**PRIMARY DIRECT: FINANCIAL INVESTORS**

First, I identify in each country the key stakeholder or stakeholder representatives.

In Australia it is evident that a significant community of agencies, associations, and NGOs are involved with stakeholder engagement on
behalf of financial investors. They can be identified in three groups as follows and include the following:7

- Government bodies and authorities: Attorney General, Australian Competition and Consumer Commission (ACCC), National Competition Council, Reserve Bank, ASIC, Takeovers Panel, APRA
- Professional associations: Chartered Institute of Company Secretaries, CPA Australia and Institute of Chartered Accountants (professional accounting bodies), Institute of Company Directors, Law Council, Law Institute and Australian Corporate Lawyers Association, and other legal professional bodies

Most of these groups have secretariats, boards, or committees of management and extensive groups of managers and employees. They significantly influence the way corporate governance is perceived and practiced in Australia and have significant impact in terms of stakeholder engagement. They have protocols, standards and codes that clarify how they support their clients or members and their relationships with corporations in Australia. They are a more extensive group in Australia than in any of the other countries considered, primarily because Australia has had a free financial market for more than 100 years. Although as noted below, extensive Australian corporate ownership of shares is a relatively recent phenomenon, regulating and managing the share market has a long history in Australia, going back to the gold mining company stock exchanges in the 19th century.8

The growth of entities involved in financial stakeholder engagement has been fostered by increasing shareholding participation through direct shareholdings and through superannuation funds. As the average age of Australians rises and the government limits the amount of and eligibility for age pensions, increasing numbers have become interested in saving for retirement and are doing so through direct investment in shares, through share purchasing in self-managed superannuation funds and through contributions to superannuation funds.

Rather than considering each entity, only one will be reviewed in terms of how they engage with corporations.

The superannuation industry has established the Investment and Financial Services Association Limited (IFSA), a national not-for-profit organization. Its primary role is to represent members to the government
and the community on issues affecting the managed investments, superannuation and life insurance industries (IFSA, 2004).

This body guides corporate governance through its recommendations on corporate governance practice (IFSA, 2004). The IFSA corporate governance guide was one of the first major documents in Australia to extensively recommend corporate governance principles in Australia. As the peak body for superannuation funds and fund managers it represents a powerful voice on behalf of institutional shareholders.

IFSA (2004) noted in the so-called Blue Book that corporations should establish a code of ethics that is endorsed by the board. In terms of its own members in 2001, IFSA established a code of conduct for its members, as the first of its standards. At the same time, it laid out a process for standard setting and compliance procedures—in effect a procedural framework.

In the other countries, the issue of stakeholder engagement with the primary investor groups seems to have a shorter history and is less clearly identified. In India, community- and state-based investor associations and NGOs have emerged recently and are likely to become influential at state and federal control levels, as financial markets grow. Since independence and arguably up until the early 1990s, the central government in India has had a strong influence over the economy and kept tight control over capital markets. There was substantial government control over investment, and consequently state-owned enterprises were major asset managers in India. This factor, alongside a close-knit framework of family-based enterprise management, has meant investor activism is a relatively new phenomenon in India.

One body, representing the fund management industry, the Association of Mutual Funds in India (AMFI)

is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders. (AMFI, 2004, n.p.).

Ethics and standards are clearly a concern for AMFI. It has a code of ethics drawn up in 1997 with assistance from Price Waterhouse and U. S. Agency for International Development (USAID), a government aid agency. According to its AMFI Web site, it is closely associated with the Securities and Exchange Board (SEBI) and seeks to ensure its members maintain high standards. It is not clear from its Web site that it has a direct involvement in the governance arena, unlike IFSA in Australia.

As noted above, SOEs are a key issue in stakeholder engagement in India. State-owned banks and financial institutions have direct investment
in many SOEs. Unit Trust of India, the government-managed fund, looks after a large proportion of the funds under management in India. An ongoing debate in India is around whether the extensively state-owned and managed enterprise system should be dismantled. Social objectives such as poverty alleviation, employment, food production, and distribution create significant tensions relating to the governance of such entities. The influence of government as an owner and stakeholder in India, either directly or through the public sector banking and finance industry, is complicated by this factor (Reddy, 2004).

In China, there is less evidence of representative bodies supporting financial stakeholders. Prime reliance seems to be focused on government-initiated codes, such as that created by the CSRC, as noted above. Much of the regulation in China is aimed at protecting minority shareholders and ensuring the corporation is not used by “some controlling shareholders . . . ‘as their own little ATM machines’ ” (Asian Corporate Governance Association, 2003a; Reddy, 2004). Thus, the key concern about ethics is protection of the financial interests of shareholders from unscrupulous controlling shareholders. It is evident from a Hong Kong shareholder activist corporate governance Web site (Webb.site.com, 2004) that there is a distinction between the private investment community in Hong Kong and investors in other cities in China. In Hong Kong, there is greater concern about the way corporations are being managed either by the state or other majority shareholder groups. The strength of investor activism appears less in Beijing or Shanghai because of the lack of a democratic heritage and the more recent emergence of the corporation as a business framework in mainland Chinese cities.10

However, other stakeholders are not ignored in the national Code of Conduct for Corporations in China. Chapter 6 identifies stakeholders as those with primarily direct financial interests in the corporation including shareholders, banks, creditors, employees, consumers, and suppliers but also notes “the community and other stakeholders.” Although the Code does directly refer to codes of ethical conduct, it does include statements such as

- controlling shareholders owe a duty of good faith;
- directors shall faithfully, honestly, and diligently perform their duties for the best interests of the company and all the shareholders;
- the company shall be concerned with the welfare, environmental protection and public interests of the community in which it resides, and shall pay attention to the company’s social responsibilities (China Securities Regulatory Commission [CSRC], 2002, n.p.).
The Code also requires “comply-or-explain” disclosure relating to corporate governance practices.

In Singapore, the Investment Management Association of Singapore (IMAS; 2004) has been set up to “serve as a forum for members in discussions as well as a collective voice where representation is needed on behalf of the investment management industry, facilitating training for its members, and contributing towards investor education” (n.p.).

Unlike its equivalent association in Australia, which took a strong stance on influencing corporate governance principles, it seems to concentrate on investment knowledge and training for its members.

The Boardroom: The Professionalization of Directors. A major interest group primarily representing the share and/or security holders’ interests is the board of directors. Directors are, in effect, the recipient of control models as well as being the major protagonists in the corporate governance debate. In Australia, their voice is collectively represented by the Australian Institute of Company Directors (AICD; 2004). This body sees its role as being “the peak body for directors, offering board level professional development, director specific information services, and representation of directors’ interests to government and the regulators” (AICD, 2004, n.p.).

The AICD sees its main corporate governance roles as being to

- meet the information and education needs of directors
- be the recognized advocate for corporate governance and directors’ issues
- provide a valued directors’ network

The AICD, originally a chapter of the U.K. Institute of Directors, was formed as a separate body in 1971. It now has more than 18,500 members and has emerged as a strong body, seeking to professionalize the role of directors and growing significantly in the past two decades. It runs a number of education and training programs that form the basis for membership and links with other professional bodies to advocate for corporate governance reform and development. It has an excellent journal, runs a mail order bookshop, and produces its own monographs on corporate governance issues.

In the other countries, the role of directors is less clearly emphasized as a stakeholder representative. In India, the Indian Institute of Directors exists but is a body that appears to have grown from the quality control movement. It has linked with a university to establish a director training institute. However, other bodies such as the accounting and auditing
professional bodies, CII and SEBI seem to have had a stronger influence
over corporate governance reform.

In Singapore, the Institute of Directors was set up in 1998 and now has
more than 700 members (Singapore Institute of Directors [SIOD], 2004).
It is structured in a similar way to the AICD and is developing along simi-
lar lines as a professional member association. In China, the former U.K.
Institute of Directors chapter became the Hong Kong Institute of Direc-
tors (HKIOD; 2004) in 1997 and, similar to the other IoDs, conducts vari-
ous professional development and education programs. At the time of
writing, there appear to be no other Chinese director associations.

The discrepancy of development between the director community as a
profession in Australia compared to the other three countries can be seen
as a direct result of different cultural backgrounds. The higher emphasis
on individualism, and the emphasis on self-regulation, has encouraged the
growth of professional associations. These cultural aspects have become
more important elements affecting business behavior and corporate gov-
ernance. This is less evident in countries where government control over
corporate behavior has been stronger and where family grouping and
communitarianism is a core social influence. In India, where arguably
individualism and self-control are also emphasized, one can posit that the
sense of identity comes from religious influence and professional stand-
ing. These factors are likely to have a direct bearing on the potential
impact of corporate governance models on business behavior. The cul-
tural overlay should not be underestimated, as is discussed further below.

Other Direct Stakeholders

Employees. In Australia, employees traditionally have been repre-
seated by trade unions and professional associations. The Sunshine Har-
vester Case in 1907 helped establish the principles of a basic wage and a
centralized arbitration and conciliation system that lasted for some 90
years (Australian Council of Trade Unions [ACTU], 2004). It under-
pinned the power of the union movement that has only diminished in the
past decade with the impact of globalization and enterprise bargaining.
The union movement is still strong and has become involved in corporate
governance issues, through member-based superannuation funds and
links with shareholder association activities. Professional associations
likewise often are concerned with corporate behavior and act on behalf of
members to pressure senior managers, boards, and owners to act legally
and ethically.

In India, traditionally, the employees have been more closely aligned to
the business and its owners or to a caste community. As such, although the
trade union movement exists, its influence is arguably ameliorated by loyalty to the business entity. This view would be offset by perceptions of increasing militancy of unions who are concerned with issues of privatization, especially of SOEs.

In the past few decades, NGOs have taken an increasingly active role in supporting social causes in India, often focusing on issues such as child or indentured labor, poor labor conditions, equal opportunity, and discrimination. Such groups are often supported by international agencies such as Oxfam, Care or World Vision, and UN agencies such as the International Labour Organisation. This has meant the pressure exerted by these stakeholder groups is linked to such influences as the Global Compact or the Caux Round Table.11

In China and Singapore, the role of employees as stakeholders has been strongly influenced by government-driven regulation. Union or NGO activism is less influential than in either Australia or India. Such direct activism is likely to be discouraged by government, in China particularly. However, relationships between individual employees, employee groups, and associations and government agencies are likely to be informally influential.

Customers and suppliers. In Australia, industry groups and associations, such as chambers of commerce, the Mining Industry Council, consumer advocacy bodies such as Australian Consumer Association, and government agencies such as the State Department of Consumer Affairs, can, and do, engage with corporations to protect customers and suppliers interests. Legislation directed at regulatory issues such as maintaining competition, protecting consumers rights, and fair trading is relatively strong and is administered by a large number of regulatory bodies.

In other countries similar groups exist. In India, the Ministry of Consumer Affairs, Food & Public Distribution, focuses on managing food distribution and regulating markets to protect consumers from market manipulation. A China Consumers Association Web site (China Consumers Association, 2004) indicates that a “consumer rights” focus is growing. However, a Web search on consumer affairs activities did not indicate an extensive network of organizations. In Singapore, an Inspectorate and Consumer Affairs Department exists but has little information about its activities listed on its Web site (Singapore Government Directory Initiative, 2004).

It seems from Web-based research that the free market environment evident in Australia has spawned a much wider network of stakeholder agencies and organizations than in the other countries reviewed. Again this reiterates the wide divergence of national systems that have had, and
will continue to have, significant impact on how corporate governance processes are likely to develop.

**Indirect Stakeholders—Social**

**Local communities.** In Australia, local community stakeholder engagement could take place in a number of ways. Local government departments are likely to have an interest in businesses located in their regions. Planning and industry policy departments will administer regulations relating to building construction, harmonization with existing infrastructure, and integration with local services. Such departments are likely to manage stakeholder engagement via community engagement projects, discussion groups, and in other ways, especially if there are major potential conflicts likely to emerge. NGOs or semigovernment authorities, interested in social development issues, have a potentially strong influence in specific regions or industries, for example, the Northern Lands Council (NLC) has protocols for doing business in designated Aboriginal reserve areas (NLC, 2004).

In India, while local government bodies vary significantly in terms of sophistication and ability to interact with business, NGOs, including religious institutions such as temples and ashrams, may have a significant capacity to influence stakeholder engagement with corporations. This has become very evident in campaigns relating to land usage, such as the Narmada Dam project and multinational corporation (MNC) activity in India. The ability of NGOs to have considerable influence in India is partly related to a high level of mistrust of government and public sector officials as well as a history of support for social action from local volunteer community bodies in India.

China and Singapore appear to have less indirect local social engagement with business, again reiterating the tradition of reliance on government intervention on behalf of local community stakeholders.

**Regional, national, and global communities.** In all countries, the impact of networks representing the social interests of broader-based stakeholder groups is growing. The influence of such initiatives as the Global Compact, the Global Reporting Initiative, and Fair Trade is having an impact on how corporations, especially MNCs, are approaching their social policies in all countries. In Australia, social reporting indexes are being openly acknowledged by major corporations as important (see Westpac, 2004). In the other countries, local community responses are likely to be specific-issue related. However, given the
growing concerns about MNC impact on society and as markets in China and India grow, these networks may establish a broader influence.

**Indirect Stakeholders—Environment**

The environmental movement is represented by a wide range of agencies or individuals. These fall into two broad categories. First, formal approved bodies such as national or regional government departments or UN-accredited agencies exist and are active in the field. Second, individuals concerned by environmental destruction or NGOs whose charters are to protect the environment emerge and seek legitimacy as indirect stakeholders. The latter group has emerged often in response to concerns about so-called capture of the formal agencies by the opponents of the environmental movement.

**Government bodies.** In Australia, government agencies concerned with the environment fall into two groups. First are those who have an interest in promoting the use of natural resources such as departments of agriculture, water storage, and forestry. Second are those who have been established specifically to monitor and respond to growing community concerns about environmental degradation such as the Environment Protection Agency (EPA), LandCare, and Parks Victoria. The way such bodies engage with corporations varies and is influenced by community attitudes and political interests. Some may take opposing views in response to natural resource utilization. For example, some departments work with and support agribusinesses using irrigation, while other departments may openly seek to reduce the amount of water usage devoted to agriculture. Government policy in response to environment protection is often influenced by electoral considerations. Up to two decades ago economic usage dominated issues such as forestry logging and dams for irrigation. Since then, greater emphasis on sustainable usage has driven government policy and is affecting how departments engage with corporations. There is now greater concern for issues such as forest degradation, land salinity, and other environmental issues. Consequently, corporations are increasingly being required to monitor their environmental impact. The EPA regularly checks water and air pollution and fines corporations who are guilty of breaking laws aimed at protecting the environment.

In India and China, with considerably more economic and demographic pressure on the environment, the trends are the same but the impact different. A decade ago, economic growth was seen as paramount and government agencies’ work was directed primarily toward this.18
Today, things seem to have changed—concerns for the environment are growing as pollution, especially in cities, is increasing. Attitudes are changing, and government bodies’ policies are likewise also changing. How extensive these changes are in terms of active engagement with corporations is hard to determine without further fieldwork research (see Balasubrumanian, Kimber, & Siemensa, 2004).

In Singapore, again demographic and economic factors have considerable influence on the way agencies relate to corporations’ environmental impact. Environmentalism is an important government concern because of the small land area, the dense population, and strong political influence. Traffic in the city area has been tightly controlled, ensuring reasonable air quality. Singapore has sought to reduce the industry effect by establishing an economic development zone on the nearby Indonesian area of the Bataan Islands.

**Ethics and Governance**

The main business ethics issue, from a corporate governance perspective, is the establishment of systems that manage ethical concerns and establish control procedures that seek to enhance business integrity and ethical conduct. One can reflect on ethics and governance from two perspectives in the context of cross-country comparisons. First, how have various approaches to governance implicitly or explicitly focused on improving ethics in organizations? Second, how do social or organizational culture factors influence how best practice models work in different cultural settings? Does ethics drive governance or governance drive ethics? Although these two concepts may be interrelated, they do identify a number of significant and different issues. It is not possible to cover the full gamut of ethics and governance concerns in a brief intercountry comparison. Consequently, a number of issues that are important considerations for the four countries involved are highlighted.

*Protection of minority shareholders and powerless stakeholders.* The protection of the less powerful stakeholders is an issue, with different perspectives, for all countries reviewed. In China and India, the minority shareholder is openly acknowledged as a potentially so-called endangered species in reports on corporation governance and in new codes (see Balasubrumanian, 2004; IFF Report, 2004). In Australia, the prime concern to be addressed is that the dominant shareholders, directors, or senior executives will maintain control to serve their personal interests.

In China, a number of sections in their new code directly note this concern, advising controlling shareholders that they owe a duty of good faith...
toward the listed company and other shareholders. The Code also requires related party transactions to be properly, ethically, and transparently managed—a clear reference to the controlling shareholder’s capability to manage the company inappropriately (CSRC, 2002, chaps. 1 and 2). The Code implies that a relatively simple set of principles can be outlined that will guide the controlling shareholders’ behavior.

In the other countries, the emphasis on protection focuses on independence, transparency, and audits. This approach to governance suggests that minority interests can best be protected by having an independent voice on the board that will offset the potential for unethical behavior by those in control.

In India, one can posit, given the limited capacity for legal enforcement, the strength of individual integrity of independent directors is being sought. In addition, one can suggest that the personal values of individuals acting as, or on behalf of, the controlling shareholders are often openly appealed to.

Duty to act honestly, with due care and diligence. In Australia, the strength of the legal process has reinforced the notions of fiduciary duties of directors especially in the past 20 years. In this period, a number of changes to corporate law and decisions in courtrooms have significantly sharpened directors’ awareness of these issues. Recent corporate failures such as One-Tel, HIH, and Harris Scarfe have all led to either commissions of inquiry, law reform amendments, and court cases whose judgments are likely to reconfirm or extend directors’ responsibilities (Australian Corporate Governance Association, 2004). In this environment, governance practices that lead to more ethical behavior have been reinforced by law. Today, the potential for Australian directors to incur legal liability is high, as shown by the recent litigation arising from the collapse of HIH (Australian Corporate Governance, 2004; Lipton, 2003; see also ASIC v. Adler, 2002).

Social pressure to “do the right thing” is also growing as business commentators and the media have voyeuristically enjoyed the chance to highlight the unethical behavior of senior executives, especially when they appear to be overpaid at the same time (Arbouw, 2001).

In India, the inability of the legal system to effectively prosecute suggests that this issue is less likely to be driven by regulation and enforcement than by personal values and an inner sense of concern for ethics (Singhvi, 2004). This pressure comes via the business media as well as active business professional groups such as the Confederation of Indian Industry and the accounting and commercial law communities. The NGO movement is also a significant force in India. In summary, stakeholder
pressure and a strong, often spiritually based, personal value system support good governance principles aimed at protecting minority interests.

In China, and to a lesser extent Singapore, one might suggest these ethical issues, honesty, due care, and diligence rely more on culture and less on governance regimes supported by a strong legal system enforcing compliance. This is considered in more detail below.

Managing conflicts of interest. The ability of senior executives and directors to appropriately deal with potential conflicts of interest is an ethical issue governance models seek to address. In Australia, statute and case law, codes of conduct, and ASX guidelines address this issue to a greater or lesser extent. Statutory duties in this regard are spelled out in sections of the Corporations Act. Disclosure and other statutory obligations are mandatory. In China, the Code addresses this concern, primarily from the perspective of related party transactions and duties of good governance for directors. In India, task force reports in the past 5 years have emphasized the need for greater disclosure, reflecting on related-party transactions in particular. The development of draft codes and the move toward more stringent listing regulations and corporate law are likely to incorporate this concern. However, it is not as specifically regulated in any of the other countries as in Australia. In all countries, disclosure is emphasized as a way of managing this concern. It suggests open acknowledgement of a conflict of interest will limit the potential negative impact. This issue is discussed further below.

Impact of Social and Cultural Ethical Factors on Corporate Governance

Although governance models are capable of encouraging ethical practice, one is immediately aware of potential tensions and paradoxes. The following issues, although by no means exhaustive, suggest a universal model approach to corporate governance and may be problematic and not necessarily able to produce optimal ethical outcomes. As ethics theorists are well aware, much of what is perceived to be good ethics is influenced by the norms of cultures and society. Consequently, corporate governance principles may well be interpreted via norms coming from social patterns and culture. Actual practice may not follow idealized theory.

However, one cannot be too absolutist in relation to this issue. Clearly, when local companies are seeking international funding and legitimacy, they are likely to adopt the best practice models, as perceived by international financial markets, at least on paper. This is less likely when international legitimacy is not considered important or is not in the interests of
existing managers such as in poorly performing former SOEs, or in family-based corporations.

The influence of transparency and disclosure to encourage ethical behavior. This issue needs to be considered in the light of culture and business practice. A valuable paper by Velayutham and Perera (2004) reflects on how culture may affect the ability of disclosure and transparency to foster better practice. They noted that societies which identify guilt as a strong social factor are likely to be more responsive to confession or disclosure as a way of dealing with ethical dilemmas. They argued that such cultures are likely to be, in Hofstede’s (1984) dimensions, individualistic, low power distance, and low uncertainty avoidance cultures. Such cultures are likely to be Judeo Christian and typified by North America or Australia. Accountability and transparent reporting are practices that “come naturally.”

Alternatively, we suggest, cultures that respond more strongly to shame as an influence on behavior are less likely to feel comfortable with disclosure. To be identified by others as involved in an unacceptable act is the last thing individuals are prepared to acknowledge. This may be equated to the loss-of-face concern often discussed as a dominant feature in communal cultures. Shame relates to unacceptability. Velayutham and Perera (2004) suggested such societies, in Hofstede’s (1984) terms, are likely to be “collectivistic, large power-distance and high uncertainty avoidance” cultures—those cultures typically associated with China and Singapore.

This argument provides a clue as to why disclosure of potentially difficult issues such as those related to potential conflicts of interest and individual remuneration as a means of encouraging good behavior may be resisted strongly. This factor underpins much of what is considered good governance in the universal model. It may be difficult to genuinely instill it as a practice in China and Singapore.

Hofstede’s (1984) initial findings in countries such as Singapore were done some decades ago. In view of the economic development since then, and with the increasing influence of business practices from the United States, some of these cultural influences may be changing, albeit slowly, especially in international trading cities in North Asia or in Singapore (Lyngaas, 2003, n.p.).

Alongside this hypothesis, in highly competitive, high-population regions, is a belief that the competitor should never be given an advantage. Much of the Chinese business literature reflects historic war strategies that prize secrecy (see Tzu, 2004; Singapore Institute of Directors, 2004b). To
highlight disclosure, as a process of good governance, may conflict with much so-called common sense about doing business. In addition, it is likely that increasing disclosure about wealth will pose personal security risks for senior executives, especially in regions where corruption and extortion are realistic business threats. This issue is likely to be a significant concern in some regions of India and China.

All these factors suggest that the idea of transparency, as a means of managing conflicts of interest as practiced in Australia, may be resisted in other countries.

*Independence and loyalty.* Independence has come to be seen as a cornerstone issue in corporate governance. It is the prime means of giving insurance that conflicts of interest are being managed and that appropriate monitoring of the senior executives is being properly handled by the board. The role of the independent nonexecutive director (NED) has been emphasized as paramount in many reports and in legislation.²¹

However, this can be seen as a so-called culture-laden notion. In some societies belonging is a major cultural influence. To seek to be independent from the group, to hold an independent perspective, and to stand as an individual against a group position are only undertaken after all other possible alternatives have been exhausted. Being loyal to the group’s leader and to others in the group may be regarded as more ethical than taking account of other consequences or upholding alternative principles. Harmony is the dominant social concern.

In some countries, independence of mind is regarded as an admired strength, whereas in community-oriented societies it may be seen as socially undesirable. Fukuyama’s (1995) work on high- and low-trust societies alludes to these themes, as do many cultural researchers’ findings, on group or individual driven behaviors (see also Trompenaars & Hampden Turner, 1997). The quote from Kipling (1994) noted above similarly emphasizes the importance of being identified as part of a group.

In terms of governance, loyalty to the group’s norms may be a key factor that inhibits the likelihood that so-called independent minds can ensure equity and fairness in boardroom decision making. This is not to say independent directors in countries which are strongly group focused will not be deeply troubled by inappropriate behavior. Rather it simply emphasizes that the loyalty ethic may override the capacity for directors to be truly independent. It is likely to be a factor in India, where family and community relationships are important, as well as in China and Singapore.
Importance of leadership. A corollary of the loyalty issue is the recognition by many researchers that attitudes about leadership vary considerably across cultures. Hofstede (1984) identified this as a power distance dimension of culture. He suggested that countries such as Singapore, China, and India register a high power distance score indicating most people do not expect to have a relationship with, or influence, senior organizational officials. Hofstede noted, in contrast, that Australia has a low power distance score, indicating most employees expect to have closer interaction with senior managers. Trompenaars and Hampden Turner (1997) used flat or steep triangles images to represent the relationship between leaders and employees in organizations. Their work confirmed Hofstede’s findings suggesting China, India, and Singapore businesses are likely to have tall triangles, whereas in Australia, they are more likely to be equidistant.

This can also be related to the power of the individual leader. Political history clearly emphasizes a different approach to leadership. India, China, and Singapore have been more accepting of autocratic leaders (Gandhi and Nehru in India, Mao and Deng in China, and Lee Kuan Yew in Singapore) than is the case in Australia.22 Hence, a clear difference between acceptance of the authority of the key figures between Australia and the other three countries appears likely. It relates to the theoretical assumption that strong debate in the boardroom, combined with the capacity of the board to represent its electors—the shareholders—is likely to occur in all countries. Cultural and/or social theorists, as noted above, would probably suggest otherwise. The capacity for individuals to speak out against the so-called clan leader, the majority shareholder representative, the senior family director and/or manager is less likely to be a way that ensures corporate or social ethics are sustained, in countries where this is against culture.

These are presented as three examples of a wide variety of ethics and culture-related notions that will influence different countries’ pragmatic responses to the best practice model in the Asia Pacific region. Ultimately they support the view that ethics will influence governance as much as the other way around.

Ethics, the Senior Executive, and the Director

Although ethics relating to board members and their actions are not ignored in Australia, it does seem the corporate governance “profession” is largely focused on the legal liability of its members. There is little evidence in the AICD (2004) Web site of a focus on business ethics processes
and procedures. A search of the AICD library Web site indicates only a few publications directly focusing on ethics approaches are available. Although such themes are certainly likely to be incorporated in the AICD publications on roles and duties of directors and their training programs, the lack of usage of terms *integrity* or *business ethics* in their Web site, given the concerns about business behavior during the past decade, suggests a degree of reticence that is surprising.

In other countries, the concerns about ethics and behavior of professionals seem more evident. Institute of Director Web sites in Singapore and India gave direct reference to director training and development programs that address ethics and social responsibility issues (Indian Institute of Directors, 2004). In India, academic research on corporate reputation, corporate social responsibility ethics, and values is extensive and developing (Kimber & Balasubrumanian, 2000). Management and director education in this area is growing. The role of the so-called virtuous business leader is well known and has traditionally been encouraged through social and spiritual movements (Balasubrumanian et al., 2004).

It appears that there are two diverging belief systems underpinning attitudes toward directors and senior executives. One is that directors are all driven by self-interest and are potentially corruptible. Therefore, stringent regulations and compliance regimes are necessary to constrain their natural behavior. This seems to be the underlying orientation in the recent legislation in the United States. The other, more traditional, attitude emphasizes that directors have an innate capacity to be good stewards and virtuous leaders and that their personal sense of high moral standards underpins good ethical behavior in business. This orientation is evident in principle-based corporate governance regimes that are more focused on ethics maintenance than legal compliance. Which perspective predominates is likely to be strongly influenced by the way different cultures respond to the relationship between ethics and leadership.

This suggests that ethics in the governance arena will be directed more by social and cultural pressures than legal or compliance regimes—a comment that is becoming increasingly emphasized in debates about the applicability of so-called black letter law in countries outside the United States. In Australia, Karin Hamilton, chief integrity officer of the ASX, commented on the principles and guidelines approach that she sees as more relevant in Australia than the “Sarbanes Oxley approach” coming from the United States (Hamilton, 2004). If this is so for Australia, given its Anglo-American connections, it can only be more of an issue for Asia-Pacific countries who have different legal systems, business approaches, and cultural practices.
CONCLUSION

Corporate governance development is rapidly occurring in many parts of the world. However, to suggest a convergence model is about to appear seems unlikely. As Lyngaas (2003) suggested, this will not develop quickly because of well-entrenched corporate practices in China, Singapore (and India), as well as other Asian countries, which focus on family management and/or ownership or majority ownership by government. He went on to note that examples of good corporate governance are easier to describe than to implement, especially in Asia.

This article highlights not only this issue but also the different orientations to stakeholder management and integrity behavior in the boardroom and executives’ offices. Different stages of business development, emerging industrialization, different political and legal systems, and traditional cultural and ethical practices all have considerable impact. Although globalization and financial market hegemony suggests a convergent model is theoretically desirable, the human capacity to protect diversity and enshrine regional and local interests seems likely to minimize rapid change, especially in the Small and Medium Enterprise (SME) and national corporation arena. We hope that those in senior roles are aware that the sustainability of corporations, economies, and societies rests ultimately on their personal capacity to maintain high standards, principles, and foster ethical practices.

NOTES

1. A broad discussion and critique of contractarianism and communitarianism may be found in the article by Bradley, Schipani, Sundaram, and Walsh (1999).

2. Investor protection plays a crucial role in corporate governance by enabling outside investors to protect themselves against expropriation by insiders (LaPorta, Lopez-de-Silanes, Shleifer, & Vishny (1999).


4. Although this logic has been well understood for a number of decades, corporate strategy and finance research has cast considerable doubt on the ability of hostile takeovers to improve asset utilization and performance.

5. In India, the deregulation of financial markets and disinvestment (privatization) of SOEs (state-owned enterprises) is occurring but is being resisted largely by employee groups concerned with the potential loss of jobs when SOEs are forced to be more competitive. Arguably, the 2004 elections in India were strongly influenced by concerns that less advantaged sectors of society are losing out to entrepreneurs and capitalists as markets free up.

6. The triple bottom line or 3BL is a term “used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from
their activities and to create economic, social and environmental value” (SustainAbility, 2004a, n.p.). SustainAbility is an NGO (nongovernmental organization) established to encourage sustainable business practice in the United Kingdom.


8. The Bendigo Stock Exchange, one of the three registered exchanges in Australia, was formed in the 1850s and reached its zenith in 1870. Then, it was noted, “Mining companies were being floated . . . at the rate of half-a-dozen a day. Gaslights glimmered all night in the brokers’ offices as staff struggled to cope with the deluge of business. In the latter half of 1870 some three hundred new companies registered and there was little abatement of the fever in the months that followed” (Bendigo Stock Exchange, 2004, n.p.).

9. A Web portal in India has been established to link all information relating to financial market activity: www.indianfinancialmarkets.com/framemain.html. It lists 12 such associations registered with the Securities and Exchange Board (SEBI), the main regulating body in India.

10. Ten years ago when working in Shanghai, I was fascinated to see that the Stock Exchange had set up branches in shops in main streets, not unlike a Totalizer Agency Board betting shop in Melbourne. It appeared that screens were flashing buy and sell quotes for listed shares and that the “punters” could go over to a wire screen to register their transactions. It brought new meaning to the notion of so-called day trading and seemed to indicate that the so-called gambling factor of owning shares was the main motive. Notions of good corporate governance were unlikely to be of key concern.


12. For details on this long-term protest movement, see www.narmada.org/.

13. For a news analysis of the debate on the Dabhol power project, see http://news.bbc.co.uk/1/hi/world/south_asia/1113996.stm.


15. See www.globalreporting.org/, an NGO whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

16. See www.fairtradefederation.com/, an NGO aimed and encouraging fair international trade.


18. As teachers in a university in Shanghai in 1995, we were told by senior officials, “After development we can worry about pollution.”

19. In the past 12 months in New Delhi in India all motorized taxis, once bad polluters using two-stroke engines, have been required to change to natural gas. Trucks and buses, some years ago, were able to spew out black clouds of diesel smoke with gay abandon. Today, according to discussions with colleagues in Bangalore, they are being forced off the roads because environmental laws are being enforced.

20. The debate around universal versus relative ethics is extensive and ongoing. For an analysis of this issue, refer to Bowie (1997). The current article cannot fully address all the dimensions. It simply posits that some culture and/or society issues have to be taken into account.

22. It could be argued, in Australia, Prime Ministers Menzies, Hawke, and Howard were or are accepted as strong leaders. However, their impact and influence is realistically far less than the leaders noted above in the other countries.

23. A search on the AICD Web site for ethics-related information only gave seven hits. Three of the seven references were to titles of books that could be purchased through the online bookshop. Two were to speeches and reports presented. One was a reference to the constitution. There were no references to integrity or ethics systems.

24. “25% of 450 listed corporations in Singapore are controlled by 10 families according to David Gerald, the Chairman of the Securities Investors Association (Singapore)” (Lyngaas, 2003, n.p.).

25. “(In China) . . . the state on average, owns 45% on each listed company” (Lyngaas, 2003, n.p.).

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