CORPORATE GOVERNANCE THE KEY FEATURE OF THE GLOBAL MARKET

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A series of events over the last two decades have placed corporate governance issues as a top concern for both the international business community and the international financial institutions. The term corporate governance refers to the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking the interests of other stakeholders. The need to adopt an effective corporate governance code is essential as we confront the waves of globalization. One of the lessons learned out of the Asian financial crisis is that weak or ineffective corporate governance procedures can create huge potential liabilities for both individual firms and, collectively, for society. In this sense, corporate governance failures can potentially be as devastating as any other large economic shock.

Corporate governance is at the very heart of the development of a market economy and it is typically perceived by academic literature as dealing with problems that result from the separation of ownership and control. From this perspective, corporate governance would focus on: the internal structure and rules of the board of directors; the creation of independent audit committees; rules for disclosure of information to shareholders and creditors; and, control of management. Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers.

From this point of view, corporate governance tends to focus on a simple model:

1. Shareholders elect directors who represent them.
2. Directors vote on key matters and adopt the majority decision.
3. Decisions are made in a transparent manner so that shareholders and others can hold directors accountable.
4. The company adopts accounting standards to generate the information necessary for directors, investors and other stakeholders to make decisions.
5. The company's policies and practices adhere to applicable national, state and local laws.

When the subject of corporate governance arises in the context of transitional or developing countries, it involves a much wider range of issues. As seen from the experiences of some countries, the lack of adequate institutions in Russia have resulted in several highly publicized cases involving allegations of asset stripping, stock register manipulation, and fraud. In other countries, the privatization program has demonstrated the weakness of the voucher method in the absence of sound corporate governance mechanism since it resulted in a lack of corporate restructuring and a consequent decline in competitiveness. These facts show the material relationship between the basic rules of economy and the way companies governed. Solving corporate governance problems mentioned above involves going beyond a narrow view of how owners and managers of capital interrelate. Therefore, in developing or transitional economies, the standard definition should be supplemented by placing it in context as follows: Corporate governance systems depend upon a set of institutions (laws, regulations, contracts, and norms) that create self-governing firms as the central element of a competitive market economy. These institutions ensure that the internal corporate government procedures adopted by the firms are enforced and that management is responsible to owners (shareholders) and other stakeholders.

Building a market economy requires a complete overhaul of legal norms to allow innovation and initiative rather than predefining areas of allowable activity. One illustration in Vietnam is the reorientation in

the Companies Law passed in 1999. Within the scope of their economic activity, economic entities may perform operations and actions that are not forbidden by law. That is why corporate governance should be thought of as a mechanism for creating self-governing organizations. However it is equally important to emphasize that a market economy is not simply the absence of government intervention.

A useful step in creating or reforming the corporate governance system is to look at the principles laid out by the Organization for Economic Development and Cooperation (OECD) and adopted by its government members. These include the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board of directors. The guidelines provide a great deal of detail about the functions of the board in protecting the company, its shareholders, and its stakeholders. These include concern about corporate strategy, risk, executive compensation and performance, as well as accounting and reporting systems.

A strong system of corporate governance can be a major benefit to society. Even in countries where most firms are not actively traded on stock market, adopting standards for transparency in dealing with investors and creditors is a major benefit to all in that it helps to prevent systematic banking crises. Taking the next step and adopting bankruptcy procedures also helps to ensure that there are methods for dealing with business failures that are fair to all

The Asian financial crisis showed that even strong economies lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence erodes.

stakeholders, including workers as well as owners and creditors. Without adequate bankruptcy procedures, especially enforcement system, there is little to prevent insiders from stripping the remaining value out of an insolvent firm to their own benefit.

Countries with stronger corporate governance protections for minority shareholders also have much larger and more liquid capital markets. Comparisons of countries that base their law on different legal traditions show that those with weak systems tend to result in most companies being controlled by dominant investors rather than a widely dispersed ownership structure. Hence for countries that are trying to attract investors, whether domestic or foreign, corporate governance matters is a great deal in getting hard currency out of potential investors' mattresses and floorboards.

In conclusion, as more and more countries in the region enter the WTO process and further their participation in the global market, the demand for corporate governance surely grow. A sound corporate governance structure will be a great deal inducement to international trade and investment. ■