1. Explain and compare corporate governance system in Asia.

The corporate governance system of the Asian nations has usually been associated with a high concentration of ownership and control by a few family system, low level of property rights and weak enforcement, high leverage for firms, less monitoring and screening by lending institutions, and ineffective banking regulation. This assessment by and large conveys an image that closely resembles the true picture of the corporate governance landscape in Asian economies.(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

First, there exists a significant difference between two groups of countries in the overall quality of corporate governance systems and their legal infrastructures for property right protection. Hong Kong, Singapore, and Malaysia appears to maintain very high standards in corporate governance and at the same time had developed more complicated and good legal systems to protect property rights than the rest of the world. A low level of property right protection and weak enforcement, loose operation of lending institutions and ineffective regulation of the financial sector are characteristics shared by Indonesia, Korea, Thailand, and the Philippines, but not by Hong Kong, Singapore and Malaysia. .(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

A high concentration of corporate ownership and control of corporations by families in all the countries generally lead to governance structures that enable the dominant shareholding families to make key decisions on their own. Appointments of board members are almost entirely at the hands of those families in control of the firms. Hence, there is a chance of conflict of interests between dominant shareholders/ managers and minority shareholders. Despite this common characteristic of ownership, actual realization of conflict of interests and expropriation of minority shareholders appear to be much less serious in Hong Kong, Malaysia, and Singapore than in the rest of the region. Nations that report for these countries do not show widespread expropriation of serious nature, although they acknowledge the possibility of expropriation due to family dominancy. .(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

Further, India mainly focusses on protecting minority shareholders, accountability within board of directors and management, transparency and in recent times it also includes corporate social responsibility.

1. Explaining corporate governance systems in few nations such as Indonesia, Korea, Malaysia, Thailand and India.

Poor corporate governance is widely viewed as one of the structural weaknesses that were responsible for the outbreak of the 1997 Asian crisis. In companies controlled by family owners, these owners could pursue their private interests relatively easily and often at the expense of minority shareholders and firms’ profits. Postcrisis policy packages have given high priority to putting sound regulatory frameworks in place in these nations. (Sang-Woo Nam  
Asian Development Bank Institute October 2004 )

From the perspective of corporate governance, ownership and control by a single investor is the most efficient arrangement in the sense that there is no agency problem, but such an ownership structure imposes limits on a firm’s ultimate size.(Sang-Woo Nam Asian Development Bank Institute October 2004 )

While divergence between cash flow rights and the right to appoint directors can be seen in most large corporations around the world and is not unique to Asian countries, the four countries paid special attention to the appointment of directors who are independent of dominant shareholders for good reasons.

In all these nations, the conditions for appointing an internal auditor are the same as those for appointing a director and also the conditions required for removing an auditor.

Shareholders also have various rights that they can exercise when they represent a certain percent of shares, including the right to inspect accounting books and records, the right to make a proposal at shareholders’ meetings, and the right to convene a special shareholders’ meeting. All four countries recognize these rights, but certain minimum shareholdings are required to exercise them. (Sang-Woo Nam Asian Development Bank Institute October 2004 )

The appointment of independent directors and the establishment of audit committees are big reform measures that had significantly increase the independence of boards and make them more efficient in pursuing the goals of firms and all shareholders instead of just the interests of dominant shareholders. (Sang-Woo NamAsian Development Bank Institute October 2004 )

Further, in India, this framework came just after the Asian crisis by Kumar Mangalam Birla committee which recommended set of principles and practices which includes audit committee, shareholders right, remuneration for protection and disclosure, transparency and accountability in general.( KUMAR MANGALAM COMMITTEE OF 1999)

1. Explain the different types of large shareholders and their role in corporate governance system.

The bulk of corporate governance theory examines the agency problems that arise from two extreme ownership structures: (1) 100 percent small shareholders or (2) one large, controlling owner combined with many small shareholders.

There are five types of large owners mainly. By far the most common type of large owner is a family, which consists of legal persons and unlisted firms. For example, a family is one of the large owners in about 80% of the firms with multiple block holders. Another category of large owners is widely held financial institutions. Widely held financial institutions are large owners in almost 30% of firms with multiple block holders. Further, the state widely held nonfinancial corporations, and a category of miscellaneous entities represent a small fraction of the large owners.( **IMF Working Paper** Research Department **Complex Ownership Structures and Corporate Valuations Prepared by Luc Laeven and Ross Levine1** Authorized for distribution by Stijn Claessens  
June 2007)

There is a strong negative relationship amongst the corporate valuations and the dispersion of cash-flow rights across multiple large shareholders. These findings advertise the value of devoting considerably more research to examining the special corporate governance features of publicly- traded companies with multiple large owners there.( **IMF Working Paper** Research Department **Complex Ownership Structures and Corporate Valuations Prepared by Luc Laeven and Ross Levine1** Authorized for distribution by Stijn Claessens  
June 2007)

D) Exploitation of minority shareholders.

Shareholder distress regards the actions and abuses of power by majority shareholders that biased prejudice minority shareholders. It is the imbalance of bargaining power that renders minority shareholders mainly vulnerable to ill treatment with majority shareholders able to vote for and make decisions without the consent of the minority shareholders.(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

Majority shareholders may abuse their powers for financial gain, and to the economic harm of minority shareholders, including the dilution of minority shares.(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

Serious mismanagement by majority shareholders can cause major financial losses amongst the minority shareholders.

Minority shareholders may also find themselves unfairly excluded from accessing corporate records and documents, which leave these parties in the dark about the company’s finances and inner workings.(**CORPORATE GOVERN AN CE IN ASIA: A COMPARATIVE PECTIVE )**

E) key benefits and challenges.

Besides for Hong Kong and Singapore which corporate governance systems have been much better than the rest, many Asian countries including India and China have made impressive progress in their reform of corporate governance systems over the past years and this can be seen in various reports and research works around the world. This is particularly so if we take into account the importance of the problems in corporate governance discussed by these countries as well. (Sang-Woo Nam Asian Development Bank Institute October 2004 )

Further, various other benefits includes- improving decision making process along with making robust corporate strategy, enhances accountability and transparency along with investor trust gaining momentum.

Other benefits includes enhancing enterprise valuation and funding and improving enterprise risk management system in general. (Sang-Woo Nam  
Asian Development Bank Institute October 2004 )

In general, with all the major improvements made since the beginning of the crisis in the region, many fundamental reform agenda are still left unanswered. Other remaining concerns includes the fragility of the legal and institutional framework and the lack of credible enforcement with respect to corporate governance systems across nations, an inappropriate modality of corporate and financial sector restructuring, the lack of a well-developed capital market and the risk of distortionary impact on corporate governance of interventionist industrial policy brought out by the government.

REFERENCE

ADB, “Insolvency Law Reform”, *Preliminary Comparative Report*. 1999.  
Akerlof and Romer, “A Looting: The Economic Underworld of Bankruptcy for profit”, *NBER Working Paper* no. 1869, April 1994.

Association of Chief Executive Officers Committed to Improving Public Policy, “Statement on Corporate Governance”, Sep 1997.

Berger, Philip G. and Eli Ofek, “Diversification’s Effect on Firm Value”, *Journal of Financial Economics,* vol.37, pp.39-65, 1995.

Borensztein, Eduardo and Jong-Wha Lee, *A Financial Distortions and Crisis in Korea,* Unpublished paper, June 1998.

Cadburry Report, *The Financial Aspects of Corporate Governance*, Dec 1992.  
Campbell, J., “Understanding Risk and Return”*, Journal of Political Economy*, Vol.104, pp.298- 345, 1996.

Aboody, David, and Ron Kasznik. 2000. “CEO Stock Option Awards and the Timing of Corporate Voluntary Disclosures.” *Journal of Accounting and Economics* 29. 73-100.

ADB (Asian Development Bank). 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*, vol. 1. Manila.

\_\_\_\_\_. 2001. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*, vol. 2. Manila.

American Law Institute. 1994. *Principles of Corporate Governance: Analysis and Recommendations*. St. Paul, MN: American Law Institute Publishers.

Aoki, Masahiko. 1994. “Monitoring Characteristics of the Main Bank System: An Analytical and Developmental View.” In Masahiko Aoki and Hugh Patrick, eds., *The Japanese Main Bank System*. New York: Oxford University Press.

https://www.indiafilings.com/learn/corporate-governance-2/