International corporate governance: introduction and overview

Christine A. Mallin

Corporate governance has become a global phenomenon. The financial scandals and collapses which have hit almost every country without exception have ensured that interest continues to grow unabated. Countries around the globe are either developing corporate governance codes or guidelines, or revamping those that they already have in existence. Global governance principles such as the OECD principles, originally issued in 1999, have been amended to take into account developments in the corporate governance arena and the revised OECD principles introduced in 2004.

Debate continues around such issues as whether boards should be accountable to wider stakeholder groups and, if so, who these groups are; the remuneration of directors; the role of institutional investors; the relationship between the company and its auditors, and many other areas. However certain common core themes have begun to emerge and these include the important role that can be played by independent non-executive directors; the appropriateness of key board sub-committees, including the audit committee and the remuneration committee. There is also a growing awareness that companies cannot operate in isolation from the wider society in which they are located, and that they need to consider the interests of groups other than shareholders if their longer term sustainability is to be maintained.

The purpose of this volume is to highlight, through various case studies, how corporate governance has evolved in a number of countries around the world and to illustrate its application in specific case study companies. The volume has four parts which focus on different regions and encompass different legal structures (civil law versus common law); different ownership structures; and differing governance structures.

CORPORATE GOVERNANCE IN EUROPE

Part 1 focuses on corporate governance in various European countries. Within Europe there exists both the unitary board system of governance
and the dual board system. The UK, for example, has a unitary board whereby executive and non-executive directors serve on one board; on the other hand, many European countries have a dual board system where there is a supervisory board and a management board. The supervisory board may have employee members (and indeed in countries such as Germany, employee membership of the supervisory board is mandated by the codetermination rules).

In Chapter 1, Bernard Taylor details the problems that led to the Royal Dutch/Shell Group overstating its proven reserves of oil and gas, and the subsequent strategies to rebuild its reputation and restore trust in it. In Chapter 2, Chris Mallin charts the development of corporate governance in the UK and the role of institutional investors in UK corporate governance. She illustrates her chapter with the case of Standard Life, one of the UK’s oldest institutional investors. Standard Life is proactive in corporate governance matters and hence in its approach to governance matters in its investee companies. It is also going through a fascinating time in its history as it moves towards demutualization.

Andrea Melis provides an insightful study of Telecom Italia and how it has introduced reforms which help to improve protection of minority shareholders’ interests. Silvia Gómez and Jaime Bonet provide a detailed analysis of the successful privatization of Indra, the leading information technology and defence systems company in Spain. After privatization Indra introduced significant corporate governance changes, including board restructuring and new remuneration schemes. Subsequently the company has achieved significant increases in efficiency, profitability and growth.

Finally in this part, Axel v. Werder and Till Talaulicar detail the corporate decisions made by Sanofi-Synthélabo and Aventis’ top management in a takeover battle. They have chosen this case as they state that good corporate governance requires that corporate decisions are made on a sound base and are transparent to the shareholders and other stakeholders of the company. Their case illustrates the decision processes involved within a corporate governance context.

CORPORATE GOVERNANCE IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

Russia and Poland are the two countries featured in this part of the book. James Gillies gives an intriguing account of the relationships between the company, the board and the controlling shareholder in a utilities company in Russia. Meanwhile in a Polish context, Izabela Kohatkiewicz analyses Polish supervisory boards in a selection of mini case studies in Poland.
Corporate governance is still very much an emergent political issue in both Russia and Poland and therefore in both cases the authors of the two chapters have either used fictitious companies but drawn heavily on real life data or changed the companies’ names, both for their own protection and for that of the companies.

CORPORATE GOVERNANCE IN SOUTH EAST ASIA

In this section, the range of corporate governance practices in South East Asia is clearly identified. The financial crisis of 1997 affected many of the so-called ‘tiger economies’, including Singapore (although it was not hit as badly as some of its neighbours), whilst Japan has experienced the bursting of its own economic bubble in recent years, at the same time as China’s economy has been marching towards a socialist market economy.

Martin Conyon’s chapter focuses on Singapore and the case of Singapore Technologies Engineering (ST Engineering), a company which has very high levels of transparency and disclosure. Singapore utilizes a unitary board structure, although it has significant state ownership of firms as well as the presence of other large blockholders. Effective ownership operates through a pyramid structure.

The next chapter in this part is by Guy Liu and Pei Sun and uses the example of Kelon to illustrate the evolution of ownership structure and governance process in China.

In the context of Japan, Megumi Suto and Motomi Hashimoto discuss corporate governance developments in Japan, highlighting the changes that have affected Japanese companies in the 1990s. They compare and contrast two ‘giants’ in Japan, Toyota and Sony, and show the contrasts in their governance styles.

CORPORATE GOVERNANCE: ADDITIONAL DIMENSIONS

The final part contains case studies from two countries: Turkey and South Africa. Melsa Ararat, Burcu Sener and Esin Taboglu have written an interesting case based on the fictional company v-Net (again political constraints warrant the use of a fictional case which draws on the personal knowledge of the authors). They show the types of problems that might arise in the case of a family-owned conglomerate in Turkey.
The final case by Reuel J. Khoza and Mohamed Adam details the evolution of governance in state-owned enterprises in South Africa, using the case of ESKOM to illustrate this. South Africa’s corporate governance code is one of the most comprehensive, if not the most comprehensive, in the world. It embraces an inclusive approach taking account of various stakeholders’ needs. This final case clearly shows how the adoption of the code impacts on the development of corporate governance in South African companies.

CONCLUSIONS

This volume contains case studies from many different regions around the globe, reflecting various ownership structures, legal systems, political and cultural aspirations. The development of corporate governance is at different stages in different countries, although all seem to value the core concepts of corporate governance including transparency and disclosure, and the benefits that good corporate governance can bring to both individual companies and to countries as a whole.

I would like to thank the authors for their time in writing the case studies. The authors, like the countries represented in the book, constitute a range of nationalities, and are from various professional backgrounds including academics, lawyers and company directors. What they have in common is an enthusiastic interest in corporate governance and how that is shaping the companies and the countries they have written about. I trust that readers of this volume will enjoy the various chapters and that new generations of students will in turn be enthused with the concept of corporate governance and become aware of the many benefits it can bring.