Should we “play” forming a company or should we expand it?

By D.Narantuya

Everyone has probably heard about the 1997 financial crisis. According to Bandid Nijathaworn, President of the Thai Institute of Directors Association, many Asian companies acknowledged after this crisis that improvement of corporate governance is fundamental to avoid crises, protect company assets, increase competitiveness and ensure further growth. Chris Razook, IFC Corporate Government Program lead, noted that companies in Asia, specifically, have been making more efforts to improve their governance. Ms. Kattiya Indaravijaya, CEO of Kasikornbank, one of the major five banks in Thailand, noted “Our banks had to improve their governance in order to prevent from suffering during the crisis”.

What company is considered having good corporate governance? Let me take an example before answering this question. In March 2011 the Fukushima Nuclear Power Plant was affected by a tsunami caused by the 7.3 earthquake. Although it was a natural disaster in Fukushima, the main factor that led to such an accident is considered to be a failure in corporate governance of TEPCO (Tokyo Electric Power Company), the head company of this Nuclear Power Plant. For instance, there was no independent risk assessment unit at the Risk Committee level, majority of the Audit committee members were employees of the company, only two out of the total of 20 directors in the board were independent directors while the rest were from the company, the company had a rating of only 3 according to the Japan Governance-Quality Index (companies are rated at up to 10 in Japan and the ones with a rating of below 6 are considered to have a failure in governance), all suggestions on governance improvement made by shareholders were not accepted in several years preceding the accident, and according to the data of 1997-2002, the company submitted reports to the sectoral coordinating authorities with inaccurate/fraudulent figures at least 200 times. The afore-mentioned facts clearly show that regardless of the tsunami, sooner or later the company would have faced a disaster of some sort.

Corporate governance is the ability to carry out all activities with good correlation in accordance with relevant norms and procedures, have divisions and units which control one another, be transparent and openly discuss any issues and resolve them by the majority. There are three main players here - first, the investor and shareholders, second, board directors, and third, managers. The company develops and expands only if it
succeeds in establishing a system where none of these players have full authority over any of the others but oversee each other and have good correlation. A Russian proverb that says “fish starts to rot from its head” is highly related to corporate governance. The main factor to avoid “rotting from the head” is to ensure that the Board of directors comprises specialized and independent members with a proper balance of power. In other words, they must not be a collection of famous public figures. The people in the senior management level undertake a very high level of responsibility before the company employees and their families.

Steady development of companies ensures stability of the economy of the country. Therefore, implementation of corporate governance principles is the foundation for peaceful living of everyone who is employed and has a source of income. Corporate governance is not a game of setting up a company but an art of forming and developing a company in accordance with relevant norms and procedures. There are, of course, many textbooks and manuals in this regard. If you are not trying to “play a game” of forming a company, you should take a look at theoretical books on this subject. Many companies that became well-known not only in their home country but also in the world have followed the principles and procedures reflected in those books. Most of them have probably started out as small family businesses. They got to understand that family owned businesses would not succeed and grow much and managed to adapt to corporate governance which led them to become famous worldwide, earn billions per year and develop to magnates with trillions worth of assets.

Some time ago, family businesses were considered as outdated, but now researchers say that the perception throughout the world has been changing. The companies that have been owned by generations of a family are producing up to 70-80 percent the world’s GDP. The only reason for considering them outdated is related to the fact that there were very few cases of family-owned businesses that successfully continued after their third generation. Statistics show that only 10 percent of family businesses successfully operated further than the third generation of owners. Today family owned businesses are shifting into an approach to improve their corporate governance because not only national but also the world economy is relying on them.

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