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S another review of the Code of Corporate Governance is in progress, it is worth reminding ourselves that while rules are important, they are only a small part of the picture. Corporate governance and sustainability arguably more important is what we can call "culture".

The Asian Corporate Governance Association (ACGA), in its CG Watch reports, considers the "CG culture" - a culture whereby companies, boards, investors, intermediaries, professional bodies, media and other market players drive corporate governance improvements - as one of the key ingredients of corporate governance.

According to the 2016 and previous editions of CG Watch, CG culture is almost always the most important governance factor across different countries, compared to CG rules and practices, enforcement, political and regulatory environment, and accounting and auditing. For Singapore, CG culture scored well below the other factors.

ACGA also reported a big difference in CG culture between Australia (the only non-Asian country it covered for comparison purposes) and Asia, and warned that the controlled and hierarchical management/employee communication system in Asia may become, if it does not, a significant impediment to corporate govern-

ence and capital market development in Asia. (ST, Sept 30, 2016). The CG Watch 2016 specifically identified culture as the top strategic priority for improving the corporate governance ecosystem in Singapore, followed by "enforcement".

The low scores for CG culture and its glacial rate of change over the years across countries suggest that improving CG culture is considerably more difficult than improving other areas.

What might influence the CG culture in a country? First, is societal culture itself - what the Oxford Dictionary defines as "the ideas, customs, social behaviour and attitudes of a particular people or society". An aspect of societal culture which may be particularly relevant to corporate governance is how hierarchical or egalitarian a society is.

Solomon and Schell's (2009) book on managing across cultures defines hierarchy egalitarianism as "the way individuals view authority and power, how much deference one gives to people in authority, whether people are treated as equals or as superiors, how leaders feel they have to make independent decisions and the initiative. It is also one's relationship to power and authority. Are people in authority better or have they earned that status by merit, and is it open to others with the same degree of effectiveness who work hard for it?"

In the 1970s, Solomon and Schell's work, Asian countries and economies generally fall into the hierarchical end of the spectrum, with India, Singapore, Indonesia, Japan, Malaysia, Pakistan and South Korea among those in the group considered most hierarchical, and China, Hong Kong, Philippines, Singapore, Taiwan, Thailand and Vietnam in the second most hierarchical group. In contrast, Australia, Canada, Denmark, Israel, Netherlands and New Zealand are in the most egalitarian group.

While corporate governance is probably better at the top, it requires a willingness to question and challenge those who may be higher up in authority or have greater status (as in the case of "face" culture in China).

In hierarchical cultures, directors may be less inclined to offer dissenting views from the chairman. Last year, I participated in a discussion on having a director to speak up for the chairman, the reluctance of employees to speak out against misconduct or unethical targets set by senior management, and the alienation of employees. The discussion led to the conclusion that the hierarchical culture in countries where "titles" are conferred on individuals signifying their status - can be a challenge to the exercise of professional judgment.

Whistleblowing systems are also likely to be less effective as a deterrent against unethical conduct by senior management in a hierarchical society. For example, in scandals involving Japanese companies such as Olympus and Toshiba, the reluctance of employees to speak out against misconduct or unethical targets set by senior management was attributed to the hierarchical culture of Japanese corporate culture.

It is no surprise that a hierarchical culture is always bad. However, it does pose some challenges for good corporate governance. Can anything be done to mitigate the deleterious effects of a hierarchical culture on corporate governance? I think so. First, those appointed to leadership positions need to be sensitive to the difficulties others may face in speaking up. I have seen chairs of boards and committees who are quite skittish in doing so. One of the most respected former civil servants here said he "feels from the back" and encourages others to give their views first rather than asserting his views too early in the decision-making process.

A contrary example is a chairman who immediately states his views on a decision at hand, making it awkward for others to offer dissenting views. Effective chairmanship is an important quality, and arguably even more so in a hierarchical culture.

Having people from other cultures may also help. At Olympus, it was the late CEO Michael Woodford, another Westerner, who blew the lid off the scandal in the Japanese company. I remember an international director of a government-linked company here who said that one of his contributions was that he did not feel awkward about asking questions that some of the local directors may feel awkward asking.

Institutional Environment

However, a word of caution about stereotyping. Some years ago, a Caucasian resident here contacted me through a mutual friend and asked whether putting himself forward as an independent director candidate was in a boardroom, involving the removal of a chairman who was an "establishment figure" here, it was strange asking someone who has been told that he has bruised many toes. He seemed to be thinking like a typical "Asian" Singaporean.

CG culture is also affected by what may be called the institutional environment - the independence and quality of "institutions" involved in promoting good corporate governance. Jamie Allen, secretary-general of the ACGA, in commenting on the reputation of corporate governance in Australia, mentioned "companies talking to investors, investors being active, training of directors and accountants, strong investor bodies and strong civil society".

Today, many Asian countries have established director institutes, and the importance of training or professional development of directors is generally well recognised by regulators and investors. However, many directors themselves, are often consider-

ably apathetic. Directors often go for training only if mandated to do so or attend only the minimal training necessary to satisfy regulatory requirements.

In contrast, in some developed markets, professional development of directors is more structured and taken more seriously by directors themselves. As for activist shareholders, director bodies and institutional investors in Asia have traditionally preferred closed- door engagements because they believe that voicing concerns publicly will cause a loss of "face" and make companies more resistant to change. In contrast, the Malaysia's Minority Shareholders' Watchdog Group is rather public and forceful in its activism and is well respected for its independence.

It attends more than 100 shareholder meetings each year to ask questions, by hosting 100 shareholders in each of these companies, and also regularly raises issues publicly through the media or through its newsletter. David Webb, who runs a well-followed website in Hong Kong, is as public and vocal a shareholder activist as you can find almost anywhere in the world and, in my view, has been quite effective in holding companies to account.

We also see investors such as Blackrock becoming more willing to engage in public campaigns in Asia, and more public activism by hedge funds and other institutional investors in countries such as Japan and South Korea. These examples of shareholder activism over-

coming cultural barriers in Asia are, in my view, a positive development and long overdue.

Nevertheless, the development of strong institu-
tions that can help foster a strong CG culture is still at a nascent stage in much of Asia. This, coupled with the hierarchical society, means that a top-down regulator-driven approach remains the main approach for improving corporate governance.

Regulators can realistically only directly help build a culture of compliance, through setting the right tone and effective enforcement, rather than a culture of performance. They can, however, play a facilitating role in building a culture of performance by supporting the development of strong institutions and encour-

aging responsible activism, including public activism.

The overall CG culture in a market is clearly import-

ant. However, the internal corporate culture of compa-
nies also matters and this is something that currently does not receive enough attention in discussions about corporate governance. Corporate culture like ethics may seem like something soft and fluffy that you would hug like your ragdoll cat, but it is critical for good governance.

What determines corporate culture of a company are the people at the top, and for many companies in this region, the most important people at the top are the major shareholders, the board chairman and the CEO - those responsible for the control, governance and operations of the company. I call them the "Holy Trinity" of the corporate governance of a company.

While corporate governance codes and rules generally emphasise policies, structures, systems and pro-
cesses, these must be based on a foundation of having the right people at the top. Companies sometimes have a poor corporate culture hidden behind a veil of polices, structures, systems and processes.

I am reminded of a story shared by a senior internal auditor of a large Singapore Exchange-listed company about the first board meeting she attended some years ago. The board was conducting a major transaction and the lawyers, bankers and advisers opted that it ticked all the compliance boxes and was a good business deal.

Somewhat to her surprise, the major shareholder said that it was not sufficient that it was a good deal or that it complied with the rules, but that it should also be good for minority shareholders. That incident confirmed to her that she had joined the right company.

The investor with the same stake in the same company with such values, half the corporate governance battle is won.

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