

Corporate governance and Asian companies

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Abstract While prominent differences in corporate governance exist across the Asia Pacific region, there are common concerns about controlling shareholders expropriating wealth from minority shareholders at the expense of overall wealth creation, as well as about the roles and qualifications of managers in Asian companies. The contributors to this Special Issue of the *Asia Pacific Journal of Management* address these concerns and provide new evidence on their empirical relevance, as well as the factors conditioning that relevance. They also provide cautionary insight into the merits of specific proposals to reform Asian corporate governance. An important theme emerging from this Special Issue is that one needs to understand the institutional framework in which organizations operate in order to understand the

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rationale for and consequences of specific corporate governance models, as well as the likelihood that specific governance reforms will be adopted and prove effective. In this context, informal institutions are often more important than formal institutions. In addition to advancing our understanding and appreciation of the linkages between formal and informal institutions, corporate behavior, and performance, as well as the prospects for corporate governance reform, the papers in this Special Issue also suggest challenging and potentially fruitful areas for future research.

Keywords Corporate governance · Asian companies · Controlling shareholders · Institutions

The growing importance of Asian markets and businesses in the global economy has heightened interest in the corporate governance of Asian companies (Peng, Bhagat, & Chang, 2010a). Over the years, there have been numerous calls for reform of corporate governance models of Asian companies. While concerns about family control and state ownership of major businesses in Asia remain strong, there is substantial uncertainty about the economic consequences of the current corporate governance models prevailing in Asia, both for corporate performance at the firm level and for economic performance at the macroeconomic level (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). These concerns increasingly have global implications as a growing number of Asian companies invest abroad. In host economies that receive foreign investment from these companies, especially in North America and Europe, policymakers are increasingly concerned about these companies' governance characteristics (Globerman & Shapiro, 2009).

The concerns about Asian corporate governance—both in Asia and beyond—and the relative paucity of research on this crucial topic (relative to the voluminous research on corporate governance in the West) motivate this Special Issue of the *Asia Pacific Journal of Management*. Selected from a total of 21 submissions, the eight papers in this Special Issue broadly address three key questions: (1) What are the distinguishing features of Asian corporate governance? (2) How do these distinguishing features affect the behavior and performance of Asian companies? (3) How to most effectively improve Asian corporate governance? (Table 1)

Evolution of interest in Asian corporate governance

Interest in corporate governance of Asian companies has waxed and waned over time.¹ In some cases, interest has been stimulated by the rise of specific Asian multinational companies (MNCs). Notable in this regard is the emergence of a relatively large literature on Japanese *keiretsu* and trading companies and Korean *chaebols*. Initially, scholars and consultants lauded the apparent efficiency and other firm-specific advantages of Japanese and Korean MNCs and sought to associate the firm-specific advantages with the unique corporate governance features of *keiretsu*

¹ The first Special Issue of the *Asia Pacific Journal of Management* devoted to corporate governance was edited by Phillip Phan (2001) and published 10 years ago.

Table 1 Three leading questions on Asian corporate governance and papers in this Special Issue.

Questions	Papers in this Special Issue (context) ^a
(1) What are the distinguishing features of Asian corporate governance?	Jiang and Peng (Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand) Estrin and Prevezer (Brazil, Russia, India, and China)
(2) How do these distinguishing features affect the behavior and performance of Asian companies?	Filatotchev, Zhang, and Piesse (Hong Kong) Wu, Xu, and Phan (China) Chen, Li, and Shapiro (China)
(3) How to most effectively improve Asian corporate governance?	Chang and Wei (Taiwan) Wielemaker and Gedajlovic (Asia) Nakamura (Japan)

^a Most papers deal with all three questions. Here we place one paper in one cell based on the emphasis made by the authors, as interpreted by the editors.

and *chaebols* (Amsden, 1992; Reischauer, 1988). However, the long and enduring economic stagnation of the Japanese economy has caused many of those same scholars and consultants to modify and even reverse their opinions of the beneficial governance features of *keiretsu* (McGuire & Dow, 2009; Morck & Nakamura, 1999; Yoshikawa & McGuire, 2008). At the same time, the Korean government has implemented policies to “reform” the *chaebol* structure and, in particular, to reduce the extent of cross-ownership, partly in response to perceived inefficiencies of extensive corporate cross-ownership ties.

The Asian financial crisis of 1997–1998 led many analysts to recommend that Asian companies move closer to the so-called “Anglo-American” models of corporate governance. However, to the extent that corporate governance is largely an endogenous response to circumstances that are specific to particular economies, it is dangerous to conclude that the “Anglo-American” corporate governance structure should necessarily be the model for Asian companies. Specifically, governance practices that “work well” in Anglo-American economies may not be best suited for the less well developed markets of emerging Asian economies (Carney, Gedajlovic, & Yang, 2009; Khanna, 2000). At the same time, it must be acknowledged that endogenously determined corporate governance structures are not necessarily efficient. Nor are changes in corporate governance structures necessarily optimal in their speed. In particular, political institutions may entrench corporate governance practices that are socially inefficient but that create economic rents shared by the politicians and owners of dominant local businesses. As a consequence, inefficient corporate governance structures and practices may persist, although increased global competition may ultimately lead to a degree of convergence across economies towards more efficient corporate governance.

While in the aftermath of the 1997–1998 Asian financial crisis, the Asian corporate governance models were criticized as being relatively inefficient, in the 2000s the growing economic importance of Asian economies, particularly China, has heightened interest in the relationship between corporate governance models and

the behavior and performance of Asian companies (Peng et al., 2010a). Increased global economic integration makes the economic performance of Asian companies increasingly relevant to consumers and businesses located outside of Asia, and the evolution and application of trade and investment policies of governments in North America and Europe are becoming increasingly sensitive to politicians' perceptions of how unique aspects of Asian corporate governance may influence the behavior of Asian companies—particularly the foreign affiliates of Asian MNCs.²

The rise of China and Chinese MNCs has reinvigorated interest in the unique attributes of corporate governance in Asian companies and in how those attributes influence corporate strategy and performance. In some parts of Asia, particularly in China, state-owned enterprises (SOEs) are a prominent corporate governance structure. Indeed, concerns about corporate governance practices tied to state ownership have precipitated calls, and in some cases legislation, to regulate investments made by state-owned or -controlled companies differently from other types of MNCs (Globberman & Shapiro, 2010).

Conceived in May 2008, this Special Issue took 3 years to come to fruition. What we had in mind was to examine, from a corporate governance standpoint, how Asian companies recovered from the 1997–1998 Asian financial crisis. Little did we know that during the editorial process for this Special Issue, the world would be engulfed in another, much larger, and much more severe economic crisis. As we conclude the work associated with this Special Issue, Asia has now become the first region to rebound from the devastation of the 2008–2009 global economic crisis (Peng et al., 2010a). These changes and transitions make the issues addressed by this Special Issue even more relevant and more timely.

The remainder of this Editorial outlines what we currently think we know about each of the three issues addressed by the papers in this Special Issue and highlights the contributions of each paper. It also identifies some critical areas for future research.

Distinguishing features of Asian corporate governance

Generalizing about corporate governance of Asian companies is perilous given variations across companies, both within individual countries as well as across countries. Nevertheless, the relevant literature highlights specific features of Asian corporate governance and links those features to the behavior and performance of Asian companies. Features of Asian corporate governance that are emphasized in the literature include: (1) concentrated ownership, (2) extensive cross-ownership ties and pyramidal ownership structures, (3) extensive family ownership with a high degree of overlap between controlling family ownership and management, (4) significant state ownership with direct political influence of management appointments, and (5) the relatively limited use of professional managers in top management.

Claessens, Djankov, and Lang (2000) identify and discuss the concentrated ownership of Asian companies. They note that more than two-thirds of the approximately 3,000 companies in their sample are controlled by a single

² For a discussion of the perceived threats to host economies posed by state-owned MNCs headquartered in China, see Globberman and Shapiro (2009).

shareholder. This control is magnified through pyramid ownership structures encompassing other companies, as well as cross-holdings among firms within corporate groups (Carney, Gedajlovic, Heugens, van Essen, & van Oosterhout, 2011). To be sure, differences in ownership concentration exist across countries. For example, corporations in Japan are generally widely held. Nevertheless, even in Japan, cross-holdings among firms contribute to concentrated cash-flow rights or, equivalently, a concentration of residual claimant rights.

Family ownership is a prevalent feature of corporate governance in Asia (Ahlstrom, Chen, & Yeh, 2010; Heugens, van Essen, & van Oosterhout, 2009; Liu, Yang, & Zhang, 2011; Peng & Jiang, 2010; Schulze & Gedajlovic, 2010; Zhang & Ma, 2009). Claessens et al. (2000) assert that the largest ten families in Indonesia, the Philippines, and Thailand control half of the corporate assets, while the largest ten families in Hong Kong and Korea control about one-third of the corporate assets in those two countries.³ By way of more recent illustrations, Morck, Wolfenzon, and Yeung (2005) report that the output of the top 15 family-controlled pyramids accounts for 84% of gross domestic product (GDP) in Hong Kong, 76% in Malaysia, 48% in Singapore, 46% in the Philippines, and 39% in Thailand.

In a number of Asian countries, particularly China, state ownership and control are prominent features of corporate governance. The World Bank (2006) notes that SOEs account for about 8% of GDP in Asia. Since the owners of SOEs are nominally the citizenry of the country in question, SOEs in theory are characterized by diffused ownership. However, in practice they are typically overseen by government bodies that are arguably the *de facto* residual claimants of those companies. The ownership form of SOEs can generally be centralized or decentralized. In the centralized form, there is one government body responsible for the government's stake in an SOE. In decentralized SOEs, the government's stake may be fragmented among a number of different departments or agencies.

In China, SOEs are legally distinct from the state and fall under company law (World Bank, 2006). Furthermore, most SOEs are publicly listed. Nevertheless, there is substantial controversy surrounding the degree to which government bureaucrats exert effective control over SOEs. While some argue that the geographical and business diversification decisions of Chinese companies are strongly influenced by the Chinese government's industrial and political priorities (Deng, 2007), others point to evidence that managers of Chinese SOEs are increasingly motivated by commercial objectives and operate independently of Beijing's orders (Cui & Jiang, 2010; Globberman & Shapiro, 2009; Peng, 2010).

The relatively limited use of professional managers in top management is another notable aspect of Asian corporate governance. There is a strong overlap between the identity of the controlling family and the top management of Asian family-owned companies (Jiang & Peng, 2011a in this issue). Furthermore, many listed companies in Asia do not have the formal position of chief executive officer (CEO). Rather, the board chair fills the role of directing strategy while also overseeing the company's operations. In many companies, the owner also holds the position of board chair and has complete control of the strategic decision-making process. In general, boards of

³ Filatotchev, Zhang, and Piesse (2011 in this issue) provide data indicating that the Claessens et al. (2000) estimate of the extent of family control in Hong Kong is probably too low.

Asian companies tend to be supportive of management and very reluctant to initiate change (Bruton, Ahlstrom, & Wan, 2003). Finally, with a high degree of overlap between controlling families and management, discipline of management is weak.

Even outside of family-controlled firms, Asian managers operate under circumstances and constraints that are uncharacteristic of companies governed by the Anglo-American corporate governance model (Young et al., 2008). Specifically in SOEs, the complex chain of control typically associated with multiple government agencies presents multiple and conflicting objectives for managers. In the presence of ambiguous or conflicting objectives, managers have the leeway to run the organization in their own interest (Jiang & Peng, 2011b). At the same time, government bureaucrats have the capacity to assert their authority by appointing compliant managers or directing the decisions of incumbent managers (World Bank, 2006).

The roles and responsibilities of management in Japanese companies have also been sharply contrasted with those in Anglo-American companies. Nakamura (2011 in this issue), among others, discusses how Japanese bank-based corporate governance mechanisms result in board membership that is largely insider-oriented and supportive of incumbent management, even when managers pursue their own objectives at variance with shareholder value maximization. Hostility in Japan towards acquisitions of under-performing companies, especially towards acquisitions by foreign-owned companies, attenuates the role that the market for corporate control may play in disciplining opportunistic managers who are not maximizing the underlying value of the organization's assets.

In short, the corporate governance features of Asian companies substantially differ from those of Anglo-American companies (Carney et al., 2009; Heugens et al., 2009; Young et al., 2008). Hence, it is reasonable to expect that the former will behave and perform differently from the latter. The next section contains a brief discussion of both theory and evidence regarding the behavior and performance of Asian companies as they are linked to corporate governance.

Economic implications of Asian corporate governance

Unique implications for the behavior and performance of Asian companies allegedly derive from both the concentrated ownership of the companies as leveraged by pyramid structures and cross-ownership ties, as well as from the overlap between ownership and management and/or the effective control of management by corporate insiders (Young et al., 2008). Relatively limited transparency of management strategies and decisions is also seen to be a significant factor influencing the behavior and performance of Asian companies (Filatochev et al., 2011 in this issue).

A well-known argument is that a group corporate structure can enhance monitoring and overcome liquidity and other constraints on acquiring resources in inefficient markets by allowing affiliated firms to pool resources and to reallocate resources among those firms (Carney et al., 2011; Jiang & Peng, 2011a). In effect, corporate groups can create internal markets for factor inputs that may improve upon the functioning of inefficient external markets characteristic of many emerging economies (Estrin, Poukliakova, & Shapiro, 2009; Khanna & Palepu, 2000). Conversely, a plausible argument can be made that pyramid structures and cross-

ownership result in internal market transactions that reduce efficiency, even in economies with weakly developed external markets for inputs. The absence of market discipline allows slack and inefficiency to persist in many Asian companies (Ju & Zhao, 2009; Peng, Li, Xie, & Su, 2010b). Furthermore, concentrated corporate ownership begets political influence that can be used to further entrench the market power of domestically-owned companies (Young et al., 2008).

Morck et al. (2005) elaborate on why control pyramids may be inefficient even in economies with inefficient markets. By allowing cash-flow rights and voting rights to diverge, control pyramids permit a divergence of interest between controlling and minority shareholders. This divergence of interest can lead to a higher cost of capital and inefficient investment. They hypothesize that the effects of control pyramids on corporate governance may be especially injurious in countries that provide public shareholders ineffective legal rights against malfeasance by controlling shareholders.

Jiang and Peng (2011a) provide empirical evidence bearing on the hypothesis that the performances of family-owned businesses will depend upon the legal and regulatory frameworks governing (minority) shareholder protection. Their study uses 744 companies in eight Asian countries to test the impact of the combination of family ownership and control on firm performance. The authors argue that family CEOs may be beneficial to the extent that family CEOs place family welfare ahead of personal interest. These family CEOs may also enjoy advantages in gaining access to unique resources compared to professional managers. On the other hand, incompetent family members may be hired as CEOs, and family altruism may keep them on the job.⁴ Jiang and Peng (2011a) find empirical support for the hypothesis that the legal and regulatory regime protecting the interests of minority shareholders significantly conditions the economic performance of family-owned businesses.

Chen, Li, and Shapiro (2011 in this issue) discuss the various ways in which controlling shareholders can expropriate the wealth of minority shareholders at the expense of corporate performance: (1) appoint unqualified friends or family members as senior managers, (2) engage in self-beneficial trades, (3) advance family and political agendas that hamper corporate performance, and (4) appropriate the profits of lower-tier companies in a pyramid business group (tunneling). The authors hypothesize that as the level of ownership concentration increases from low to moderate, there are actually significant benefits associated with minimizing managerial expropriation, since minority shareholders have incentives to do more effective monitoring of expropriation behavior. However, as ownership concentration continues to increase, the benefits of minority shareholder monitoring are eventually overshadowed by the costs associated with controlling shareholder expropriation. Using a panel data set of over 1,000 Chinese listed companies, they find empirical support for their argument.

In another paper in this Special Issue, Filatotchev et al. (2011) assess the phenomenon of controlling family shareholders utilizing information about the company to extract wealth from minority shareholders. This expropriation mechanism is different from the traditional tunneling phenomenon that has been at the center of most discussions of the conflicts between controlling shareholders and minority shareholders in family-controlled businesses, which are highlighted as “principal-principal” conflicts by

⁴ Bloom and Van Reenen (2010) provide some evidence that family-owned and -managed firms have a “larger tail” of badly managed firms compared to family-owned but externally-managed firms.

Young et al. (2008). As large blockholders, family shareholders can monitor managerial decisions and improve transparency for themselves, as well as for the minority shareholders. However, family shareholders may also have incentives to extract private benefits of control at the expense of minority shareholders by using private information for their own financial gain within a less transparent corporate structure. Thus, improving transparency may reduce the overall cost of capital for the family-controlled business which is the expected gain to the controlling owners. This must be set against the benefits of expropriating minority shareholders through the use of private information.

Filatotchev et al. (2011) use a comprehensive sample of listed Hong Kong companies to evaluate how family control affects the abusive use of private information by controlling families, as well as how private information abuse risk affects company performance. They find that family leadership is negatively associated with firm performance after controlling for firm-level private information abuse risk, where firm performance is measured by Tobin's Q. At the same time, they find that family ownership and leadership negatively moderate the impact of the expected private information abuse risk variable on performance, while board dominance positively moderates such impact. This finding suggests that family control may have an overall positive impact on corporate performance when private information abuse risks are low. This suggestion is consistent with Jiang and Peng's (2011a) broad argument that the impact of family ownership on corporate performance is conditioned by the institutional context in which family-owned businesses operate.

Whereas most empirical studies of the impacts of corporate governance features focus on performance measures, Wu, Xu, and Phan (2011 in this issue) discuss and assess how ownership concentration and state ownership of Chinese companies affect strategic behavior. Specifically, they examine how ownership concentration and corporate debt affect corporate divestitures and how that linkage is conditioned by state ownership. In their model, reduced divestiture activity is consistent with owners valuing diversification as an instrument to enhance efforts to expropriate minority ownership interests. Wu et al. (2011) find that for both state-controlled and non-state-controlled firms, ownership concentration by the largest shareholder is negatively associated with corporate divestitures. In contrast, while the impact of corporate debt on divestiture activity is negative for both types of firms, it is statistically significant only for state-owned firms.

In summary, a number of the papers in this Special Issue make valuable empirical contributions to the literature on the relationship between corporate governance and corporate performance in Asia. Specifically, they highlight the nuanced nature of the relationship and, particularly, the need to acknowledge that the institutional environment (broadly defined) in which Asian firms compete can condition the relationship in important ways. Put simply, it is naïve to hypothesize about the impacts of corporate governance features on the performance of Asian companies without incorporating into the analysis specific features of the institutional environment in which those companies operate. Such work thus significantly enriches an institution-based view of corporate governance (Carney et al., 2009; Peng, Sun, Pinkham, & Chen, 2009). Furthermore, as Estrin and Prevezer (2011 in this issue) discuss, it is not just formal institutions that matter in this regard. Informal institutions encompassing unwritten social rules that can shape incentives in systematic ways interact with formal institutions, such as state-enforced rules and

legislative decrees, to influence both corporate governance features and their economic consequences.

Improving corporate governance and corporate performance

A variety of suggestions have been put forward in the literature to modify corporate governance practices in Asia with a view towards improving corporate performance. While it is beyond the scope of this paper to identify and address the variety of suggestions in a comprehensive manner, it seems fair to summarize them as constituting a broad recommendation for Asian companies to be more like Anglo-American companies in terms of corporate governance. One specific aspect of this recommendation is improving corporate transparency and information disclosure (World Bank, 2006). A second is reforming boards of directors, including the election of active and independent board members (Peng, 2004) and the separation of the board chair and CEO positions (Chen et al., 2011). A third is encouraging an active market for corporate control in which poorly governed companies can be acquired, and presumably reformed, by better governed companies that enjoy lower costs of capital because of their superior corporate governance (Nakamura, 2011).

There are strong reasons for being skeptical about the potential for implementing these and related measures in the Asian context, as well as the likely consequences of their implementation (Chen et al., 2011). Nakamura (2011) highlights how corporate governance reforms promoted by Japanese government authorities in the wake of the prolonged post-1990 recession were only selectively implemented by Japanese companies. Indeed, while government authorities called for Japanese companies to emphasize shareholders' rights (including minority shareholders' rights) and shareholder value maximization, the Japanese government, in practice, continued to privately endorse corporate policies that were more consistent with preserving the *keiretsu* network and incumbent management.

Nakamura (2011) discusses a conceptual model that helps explain why some specific reforms are implemented and others are not. The model underscores the need for proposed changes in corporate governance to be consistent with the informal institutions surrounding corporate behavior if the proposed changes are to be effectively and readily implemented. In this regard, Nakamura's argument is consistent with an inference that can be drawn from the discussion in Estrin and Prevezer (2011). Namely, changing laws and other formal rules as they apply to corporate governance may fail to achieve the desired outcomes, or indeed fail to alter the status quo, if the changes are in conflict with critical informal institutions.

The limited and unconvincing evidence surrounding the effects of corporate governance reforms in the United States and other developed markets serves as a caution against expecting proposed reforms to have a significant beneficial effect in Asian companies, even if the reforms were enthusiastically implemented. For example, there is little compelling evidence after almost a decade that the Sarbanes-Oxley Act achieved its objectives to improve internal financial controls in American companies, and the scope and reliability of accounting information reported by those companies. Furthermore, and notwithstanding the enormous attention paid to attributes of corporate boards (such as the number of board members, the number

of independent directors, the CEO-board chair duality, and the roles played by board members), a recent review of the literature highlights how difficult it is to draw concrete conclusions about how corporate behavior and performance are causally linked to the structure and governance of corporate boards (Adams, Hermlin, & Weisbach, 2010).

Chen et al. (2011) empirically evaluate whether and how the adoption of specific “good governance practices” recommended by the OECD affects the corporate performance of Chinese listed companies. They point out that many Asian governments have recommended that their companies adopt some or all of the corporate governance practices recommended by the OECD. The authors consider whether the implementation of measures (such as establishing a supervisory board to oversee the board of directors, separating the role of CEO from that of board chair, and increasing the proportion of outside directors on the board) affects corporate performance as measured by accounting profitability. They conclude that the adoption of such measures does not improve corporate performance.

One of the explanations offered by Chen et al. (2011) for their failure to identify a positive and statistically significant linkage between corporate governance reforms and corporate performance is that most good governance practices recommended by the OECD are designed to resolve conflicts between shareholders and managers but not between controlling shareholders and minority shareholders. Hence, they do not mitigate the incentive for majority shareholders to expropriate wealth from minority shareholders, even at the expense of weaker overall corporate performance (Young et al., 2008). A second explanation is that supervisory directors often have a low status and therefore limited power in Asian companies (Hu, Tam, & Tan, 2010). The latter explanation is consistent with the broader argument discussed above that informal institutions can condition attempts to reform corporate governance.

Finally, Wielemaker and Gedajlovic (2011 in this issue) discuss the importance and the unique attributes of alternative entrepreneurial forms to innovation. They stress the need for an appropriate matching of organizational governance and entrepreneurial strategies in order to promote successful innovation. They also identify how Asian governments may be adversely influencing innovation by favoring and protecting specific organizational forms that are inappropriate to a country’s state of innovation performance. Greater reliance on market-based incentives is called for to encourage changes in organizational structure and the continued evolution of dynamic and efficient innovation systems in Asian countries.

Conclusions and future research

Taken together, the papers in this Special Issue underscore the importance of understanding incentives in order to implement corporate governance reforms that change the behavior and performance of companies in a socially beneficial manner.⁵

⁵ Corporate governance in Asia is a broad area, and *APJM* is committed to being a leading outlet to disseminate world-class research in this area. Beyond the topics addressed by the papers in this Special Issue, additional papers in regular issues of *APJM* address other important issues in corporate governance, such as executive compensation (Sun, Zhao, & Yang, 2010), CEO dismissals (Li & Lu, 2011; Pi & Lowe, 2011), supervisory boards (Hu et al., 2010), private benefits of control (Luo, Wan, & Cai, 2011), business groups (Ramaswamy, Li, & Petitt, 2011), and political interference (Sun, Mellahi, & Liu, 2011).

In particular, one needs to understand the incentives of controlling shareholders in what Filatotchev et al. (2011) identify as the controlling shareholders' "multiple agency roles." In the Asian context, the overriding issue seems to be whether and how public policy can enhance controlling shareholder incentives to create corporate wealth rather than expropriate wealth from minority shareholders. In other words, the challenge will be how to reduce principal-principal conflicts (Chen & Young, 2010; Jiang & Peng, 2011b; Young et al., 2008).

In Anglo-American economies, the incentive to create wealth stems from the competition for corporate control that, in turn, is facilitated by relatively liquid and efficient equity markets. Specifically, companies that fail to maximize their wealth will find it relatively expensive to raise financial capital. As a consequence, they will find it difficult to finance the maintenance of the existing capital stock, let alone finance diversified expansion. Such companies will either go out of business eventually (thereby releasing labor and other inputs to companies that seek to maximize wealth) or they will be acquired by wealth-maximizing companies. In either case, the competition for financial capital should lead to the displacement of agents who fail to maximize wealth for minority shareholders by those who do focus on maximizing the wealth of their companies.

In effect, concerns about corporate governance in Anglo-American countries ultimately devolve to concerns about inefficiencies in capital markets. While capital market inefficiencies have certainly been identified in Anglo-American economies, the evidence suggests, on balance, that managers cannot act against shareholders' interests with impunity—that is, without being effectively disciplined by takeovers, leveraged buy-outs, and the like. In emerging Asian markets, domestic capital markets are undeveloped and cannot be expected to always promote wealth maximization. For developed Asian markets such as Japan, Hong Kong, Korea, Singapore, and Taiwan, the relative efficiency of domestic capital markets is an empirical question. In this regard, Chang and Wei (2011 in this issue) provide some relevant evidence for Taiwan. Specifically, they employ an innovative experimental technique to identify whether Taiwanese investors will pay more for stocks of companies that are ostensibly better governed than their rivals. Chang and Wei (2011) show that governance strength can enhance the price that individual investors are willing to pay for stocks. However, the association between governance strength and the willingness to pay more for a stock is moderated by the investment experience of individuals. More experienced individual investors are better able (or more willing) to incorporate governance strength into their evaluation of stock prices compared to less experienced individual investors.

While there are many areas for future research on Asian corporate governance, the role of capital markets in Asian corporate governance seems especially promising. In particular, the growing integration of global capital markets can be expected to influence corporate governance, although the nature of the influence will arguably be shaped by the formal and informal institutions surrounding domestic capital markets in Asian economies. Some of those institutions may, in turn, be influenced by global capital market developments. In this regard, the extent to which Asian capital market institutions and practices increasingly resemble their counterparts in Anglo-American countries is a potentially important phenomenon. The coevolution of capital markets and corporate governance in Asia offers abundant

opportunities for both theoretical and empirical research in the future, which we hope will be stimulated by papers in this Special Issue.

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