ICGN–University of Malaya Academic/Practitioner Day
Shangri-La Hotel, 1 Jalan Sultan Ismail
Kuala Lumpur
10 July 2017

Board effectiveness and minority shareholder rights in Asia: What can we learn from academic research?

Overview

On 10 July 2017, ahead of its annual conference and general meeting in Kuala Lumpur, ICGN held its annual Academic/Practitioner Day, co-partnered this year with the University of Malaya. This was the fourth annual ICGN Academic Day linked to its annual conferences. This follows the initial events at Nyenrode University in the Netherlands in 2014, at London Business School in 2015 and with Stanford University's Rock Center in 2016.

ICGN has established the tradition of Academic Days to build bridges and understanding between academics and practitioners with an interest in corporate governance. The basic intent is educational -- consistent with the ICGN mission, and certainly that of the University of Malaya as well. The sessions were designed to provoke thinking about what we do -- and do not-- know about corporate governance through an interplay between academics and practitioners, as both presenters and discussants, across a range of current corporate governance issues.

We would like to thank our friends at the University of Malaya for their gracious support and involvement, and extend our thanks to all the academics who took the time to join us for this event. We are also thankful to Melsa Ararat and Rita Bushon for their involvement in the planning of this Academic Day. They provided valuable contributions, particularly in thinking through programme structure and content.

This compendium report of the day's event chronicles the papers, the discussants' comments and the audience dialogue. This allows our event to live beyond the day itself and add to the foundation for future events of this nature-- and to ICGN's ongoing links to the academic community globally. This report will be housed on the ICGN website, along with the individual papers that were discussed at the event[1].

The three sessions were reported upon by rapporteurs with extensive corporate governance knowledge and experience. Each report has its own distinctive

[1] Some papers may not be available online, depending on intellectual property concerns.

style, reflecting the individual rapporteur's perspective and approach to the session.

ICGN Introduction

George Dallas
Policy Director, ICGN

Corporate governance is a well-established term and concept in the business, financial and regulatory communities, and it is also building visibility in the general public—often linked to corporate scandals or dubious business practices. At the same time, while the term itself is increasingly familiar, there are many differing definitions and models of governance. Moreover, the multiple factors that influence the quality – or weaknesses—of a company's corporate governance are challenging to both measure and model.

The result is that there remains limited rigorous statistical evidence about many governance practices that are embedded into codes of governance and into the "received wisdom" of what aspects of governance are regarded as positive or negative. This can put investors and other corporate governance practitioners (which can include, company directors, company secretaries and company advisors) in the difficult position of making decisions or judgments relating to how a company's governance practices might affect its performance, valuation or risk.

This is where tighter linkage between governance practitioners and academics fits in. For practitioners there is desire to better understand how academic research in corporate governance can inform what we do and help us make better decisions. For academics with an interest in corporate governance the experience and concerns of practitioners can inform the academic community in terms of considering topics for research and potential approaches to research. The ICGN Academic Day format is based on building links between academic research and practitioner experience.

The event focused on three specific themes of corporate governance:

- **Gender diversity on boards**. As we seek to enhance board effectiveness, the impact of gender diversity is receiving considerable attention. What is it that women bring to company boards? Are women intrinsically more risk averse than men? How do women affect board dynamics and effectiveness? Professor Renee Adams from the University of New South Wales addresses these questions in her paper "Lehman Sisters".
- **Share repurchases and corporate control in Japan**. Capital allocation is an important corporate governance question, and share repurchases can be used to influence corporate control. What is the experience in Japan, and are share repurchases a good thing? Professor Hideaki Miyajima of Waseda University presents evidence in his paper "Share Repurchases and Control

of the Corporation: The Evidence from Japan", co-written with Julian Franks of London Business School and Colin Mayer of Oxford University.

- **State ownership and corporate governance in Malaysia.** The governance of controlled companies greatly depends on the controlling owner—and the alignment of the controlling owner with minority shareholders and stakeholders. How does state ownership influence companies? Is this control typically healthy or problematic in terms of good corporate governance and minority shareholder protections? Dr Terence Gomez from the University of Malaya addresses the Malaysian situation in a summary of his book: "Minister of Finance Incorporated: Ownership and Control of Corporate Malaysia".

This agenda has a clear emphasis on regional governance themes in Asia but it also addresses broad corporate governance issues such as board effectiveness, capital allocation and minority shareholder rights that have relevance across all jurisdictions. The attendance and discussion at this ICGN Academic Day in Kuala Lumpur demonstrated that the investment community is keenly interested in how research can support a better understanding of corporate governance -- what both good and bad look like, and what we still need to learn.

University of Malaya Introduction

Professor Dr Norma Mansor
University of Malaya

Corporate governance is a topic that confronts us, either as individual nations, or groups of nations as we are in Asia. Increasing globalization, deregulation of markets, and budgetary discipline are driving efforts to improve corporate performance.

As we know, technology has made the world so interconnected that nations or group of nations are challenged to perform according to certain benchmarks or measures and it is not possible to have one nation acting without affecting another. A long history of efforts at reform shows that the key to better corporate performance is better governance.

This conference may hopefully yield some expansion and clarifications on the issues that particularly relate to the concerns and experiences of Asia in terms of the nations' ability to meet good governance and ethical standards in managing organizations and institutions, whether they are state owned, state linked or privately owned enterprises.

As many of us would have already known, poor corporate governance was widely viewed as one of the structural weaknesses that was responsible for the outbreak of the 1997 Asian Financial Crisis. And as if the world had not learnt enough, poor ethics and governance again was largely responsible for

triggering the Great Financial Crisis of 2007 in the West. Its systemic effect has left almost no nations unscathed.

While the regulatory environment may seem to stifle business activity, striking a balance between control and autonomy becomes even more challenging, as it is imperative that corporate governance arrangements be included in policy frameworks to promote robust and efficient financial systems.

In many Asian economies, state owned enterprises (SOEs) are significant economic players. Unlike in the past, however, SOEs today are under greater public scrutiny and under strong pressure to provide essential infrastructure, financial and other services in cost effective manner, reduced fiscal burden and fiscal risk, and to enhance the transparency and accountability of the use of public funds.

In newly industrializing economies such as Asia, more attention needs to be paid to the corporate governance problem arising from the separation of control from ownership particularly of family owned and managed business.

Another key topic in corporate governance is gender diversity in the boards of directors of large corporations. Study has shown that in a gender-balanced board, the perceptions associated with female leadership style are particularly relevant to long term stakeholders, as women are perceived to be more conscientious in performing their tasks, more risk-aware both in investing their own assets and in investing on behalf of others, and more other-oriented.

This conference has a wide agenda and relevant issues to work on. I am confident that all of us, delegates and participants will benefit from our common effort to identify problems and arrive at a consensus towards cooperative approaches for better corporate governance in Asian Enterprises.

Agenda

Session one: Gender diversity on boards

- Presenter: **Professor Renee Adams**, Professor of Finance, University of New South Wales, Australia: "Lehman Sisters[2]"
- Academic discussant: **Thomas Clarke**, Professor and Director of the Centre for Corporate Governance, UTS Business School, Australia
- Practitioner discussant: **Claudia Kruse**, APG Investments, Netherlands

[2] See: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3046451

Session Report

- Rapporteur: **Tracy Stewart**, State Board of Administration of Florida, USA

Lehman Sisters

Dr Renee Adams and Vanitha Ragunathan wrote “Lehman Sisters” to critically the idea expressed most prominently in a statement made by Neelie Kroes, European Union Commissioner for Competition and written about in The Economist shortly thereafter, that had there been women on boards such as Lehman Brothers, they may have prevented some of the risk taking that led to a breakdown in the financial system. There is a lot of research to suggest women are more risk averse than men in general. Adams and Ragunathan examine risk taking among men and women in financial and non-financial career tracks. They also examine whether the presence of women on the boards of financial firms results in the firm’s behaviour being more risk averse, the implication being that risk-averse women members lead the firm toward more risk averse choices.

The paper’s key findings:

- Selection matters for preferences: contrary to general findings of women having lower risk tolerance, **women in finance** differ from women in the population (they are more risk taking, equal to men in finance)
- Financial firms with women on their boards are not less risky than other financial or non-financial firms.
- Some evidence exists that firms with women directors have better financial performance in certain areas.

Existing research suggests that at the population level, women are more risk averse, less competitive and less over-confident than men at the population level. However, a recent sample of Swedish directors showed that women **directors** were less risk averse than male directors, suggesting that there may be a general pattern of selection bias underpinning which women seek out and attain directorships. The authors used the proportion of female directors (with an additional variable to explore the impact on financial companies specifically) on these boards to try to explain risk taking as measured in three different ways: volatility, idiosyncratic risk, and tail risk. They also looked at the relationship between the proportion of women directors and the performance of the firm.

Sapienza, Zingales and Maestripieri (2009) collected data via biological samples (blood and saliva), gender, and career choice from MBA students. Adams and Ragunathan used that data for this “Lehman Sisters” paper to understand how risk aversion and gender influence career choice in finance:

- Fewer female MBA students ultimately go into finance than male students (36% versus 57%)

- Population differences between women and men on markers of risk aversion support the notion that women are in general more risk averse. However men who go into finance are less risk averse than men who don't, and women who go into finance are much less risk averse than women who don't. In fact they were the least risk averse group, scoring just lower than men who ultimately went into finance.
- They found no evidence of the proportion of women on the board in general being associated with a decrease in risk, by any measure. They did find that the presence of women on the boards of financial companies is associated with higher risk—the opposite of what has been claimed for Lehman Brothers.

Conclusion: women on boards may behave and have preferences that differ from women in general, making stereotyping on generalities dangerous.

Discussant Thomas Clarke, University of New South Wales, Australia:

Thomas noted that the purpose of this paper was not an attempt to make a business case for women on boards, but he also noted the corollary to that, as discussed by Sue Vinnicombe in the Davies report, has not been made either: there has never been presented a business case for men to dominate boards. As editor of Journal of Business Ethics, Thomas has seen many researchers now trying to make the business case for women under a variety of metrics: improved risk management, higher participation on boards linked to better CSR, employment relationships etc. He conducted a census of women in leadership in Australia and felt the characteristics of women were quite robust and matched those seen in the findings of the Swedish directors study. He noted the harm of stereotyping women.

Policy disputes may arise in whether to employ quotas or targets to increase the participation of women on boards. He noted participation on boards by women is higher in areas that have introduced quotas. It is difficult to know if their participation has the same level of impact as in places without mandatory levels. He noted that the Middle East and parts of Asia lag behind other industrialized nations in levels of women on boards. Even in industrialized nations, however, some of the progress has slowed. Fortune 500 board participation by women is actually down a little over the last 2-3 years.

He noted the continued lack of increase in the number of women in the senior executive pipeline as being a considerable hindrance to an ongoing increase in the number of women on boards, exemplified by very low rates of international female CEOs (3-4%). Future prospects are likewise not supported by high rates of women participating in the levels below board service such as executive leadership in line management rather than service roles. A lack of an executive pipeline can make participation difficult.

Many of these boards have only one or two women directors. He suggested perhaps this isn't a critical mass for a significant decision-making and financial impact. In this paper, women directors seem to be associated with a higher level of firm value (as calculated by Tobin's Q), innovativeness, and a decrease in the quantity of bad loans at financial institutions. However, until an increase in women directors is joined with a concomitant increase in women executives, low rates of female participation will be a problem for optimal gender diversification and productivity going forward.

Discussant Claudia Kruse, APG Investments, The Netherlands:

Claudia's observations reflect her financial experience and engagement of boards on these issues, particularly on issues of stewardship and exercising voting rights at APG. From her own perspective working in finance, the results of the risk aversion tests were unsurprising and anecdotally agreed that men and women were similar in risk.

She appreciates the value of the research in assisting governance practitioners in making policy and conducting engagements with companies. She noted the many levels of diversity such as ethnicity, nationality, professional background, etc. Did the women directors in the study bring these other dimensions of diversity to the board as well? Research to examine these additional elements would be helpful from the practitioner point of view.

She noted certain countries have gender quotas that make it difficult or impossible to cast a vote on a female director based on other important criteria, such as independence. These policies make methods of ensuring gender diversity a more difficult topic to address. In this manner, the pursuit of diversity may impede other worthwhile governance goals and concerns.

Research such as this does indeed help practitioners frame the kinds of questions that would be helpful when engaging boards on diversity issues. What measures of diversity does the board include when evaluating their own performance? What methods does the board use for assessing performance and are they linked to diversity?

Research has shown that women tend to be on more committees, but which committee is important as well. Risk? Compensation? The debate seems to go toward creating gender-diverse boards, but other questions emerge. How does board diversity impact compensation structures? Stakeholder engagement becomes very important. A more diverse board may contribute to performance because it can more effectively anticipate and react to ongoing changes in expectations from stakeholders, such as pension funds and their beneficiaries.

Comments from the audience:

Tracy Stewart, Florida State Board of Administration, United States:

It is common for academic work to cite other literature and potential explanations for what is observed in the results. In this paper, some literature from the 1970s suggests that boards possibly perform well when they are more

homogeneous and there is a higher degree of trust. But it is a dangerous idea to think that things have evolved this way: boards until now have been dominated by men and of the race commensurate with the locale, and this is not a natural equilibrium that we have arrived at. The idea that we are more comfortable with people who are similar to us in some dimension and therefore function better in that homogeneous environment serves merely to insulate our thinking and promotes tribalism and discrimination on many levels beyond gender.

Further, the results here show that women did not make the boards less risky, and boards with women had better financial results in certain measures. Perhaps the cause of the increased performance is actually a function of a well-working, rational board. Boards that would stereotype and exclude women are perhaps given to making poor decisions in other areas; perhaps a lack of women on a board is a helpful marker of bias and dysfunction. Adding a woman or two to this type of board is not likely to overcome such innate dysfunction. Investors need to watch for and engage on these measures and potential signals of bias.

The paper contained biology results that weren't discussed in this session, but which contained very interesting conclusions. The distribution of risk aversion measures in populations of men and women overlap quite a bit. Environment and genetics plays a part. The paper discussed salivary testosterone measures in men and women which also overlapped considerably across gender. Testosterone exposure in utero is known to impact brain structure and causes both genders to develop more of what is considered a "male-oriented" brain. These in-utero and biological effects are likely driving the selection differences we see when researchers examine women who have selected careers such as finance versus women in general. They likely explain much of the variability in males for risk aversion as well.

Delegate, Japan:

Are women more risk averse when it comes to tail risk? Perhaps that would make them more likely to prevent a firm-wide failure? Renee Adams responded that there are many ways of measuring risk, and perhaps many different ways women respond to those measures. She doesn't know of any additional research for that question. She really wanted to show that you can't generalize about individual women based on population effects.

Delegate, Japan:

Is there any relation between risk-taking attitudes and other measures of women's career history or background? Renee Adams responded that the question was a good one and similar to Claudia Kruse's point of the many differing aspects and types of diversity. She said it is difficult to get the specific data they would need to look reliably at background, and the problem is complex because of how many different dimensions there would be to consider. She also noted women in their study had a higher average level of education than the male directors, but they have not looked at things such as how the

presence of lawyers or accountants change the level of risk a board takes. Claudia Kruse noted here that there also seems to be a level of economic affluence of many of the women on boards, as compared to men, and asked Renee Adams if they had looked at socioeconomic background. Renee Adams said she would love to examine that, but that the data for that kind of study is very difficult to obtain.

Delegate, Australia:

This delegate noted that several years ago when she looked at board performance and gender, there was an increase in performance with at least two women on the board. She noted that the relationship seems to have weakened now, possibly because pressure to add women has made some boards bring women on, but not necessarily embrace their ideas. She asked Renee Adams if she had any thoughts on whether it is possible to differentiate between boards that really want women on their boards versus boards that are doing it under pressure, perhaps under a quota system. Renee noted the quota requirements can have drawbacks and unintended consequences. She said no one wants to be the “quota woman”, and in particular, it sets unfair and unrealistic expectations for women directors.

Delegate, Hong Kong:

Pru made the point that the idea of a 30% female quota should perhaps be looked at the other way: that the quota for men is being reduced from 100% to 70%. She noted that familial appointments of women to meet quotas don’t differ wildly from how many companies already favour male relatives in board appointments. Renee Adams agreed that a quota system was not a complete solution to the problem and likewise does not address the problem of women in the executive pipeline.

Delegate, Malaysia:

Rita pointed out that it seems like the driver of the correlation of women on boards and performance may be coming from the other direction: that boards with good performance seem to be more open to appointing women. Renee Adams answered with some amusement that her own research shows actually a negative correlation between the two, but if there is positive correlation, perhaps it is driven by highly-performing firms choosing women and not women driving the performance. She doesn’t know of any well-constructed papers that show statistically that women on boards and performance are positively linked. There are many variables that need to be included to analyse such a complex relationship, so she thinks it remains an open question and perhaps is even conditional on other circumstances of how and when women may add value.

Session two: Share repurchases and corporation control

- Presenter: **Professor Hideaki Miyajima**: Director of Waseda Institute for Advanced Study (WIAS), Waseda University: "Share Repurchases and Control of the Corporation: The Evidence from Japan[3]"

- Academic discussant: **Professor Melsa Ararat**, Sabanci University School of Management, Turkey

- Practitioner discussant: **Peter Montagnon**, Institute of Business Ethics, UK

Session Report

Rapporteur: **David Couldridge**, Head of Engagement, Investec Asset Management, South Africa

The presentation:

The paper claims it is the first to examine the potential control effects of stock repurchases in Japan and the impact of the changing nature of share ownership.

Typically in global markets, in order to resolve information problems, shares are repurchased if considered to be undervalued. In some regions it is possibly used to boost share prices in order to support incentive schemes or to increase control of the company's shares. In the US, ownership structure is predominantly outsider dominated, whilst in Japan ownership is moving slowly from insider dominated to more outside shareholders.

Mostly insiders held shares until about 1997 (62%). In 2001 stock repurchases were introduced in Japan. However it appears from the paper that banks and insurance companies supported insiders, restraining the switch to more outside influence on companies and boards in Japan.

The buybacks were predominantly facilitated by private negotiation or placement. Open and transparent public offerings were rare. Tokyo Stock Exchange Trading Network System (ToSTNeT) was used to settle the share transactions. The paper suggests the 17 hour settlement through ToSTNeT suggests that the transactions were effectively a private placement. Perhaps these transactions, which were sometimes at a discount, should have been classified as related party transactions?

The paper and presentation referred to a number of case studies to support the premise that buy backs of shares are used to entrench insider control of companies in Japan:

- Toyota where shares repurchased from insiders were retained as treasury stock and not cancelled.

[3] See: https://cloudfront.ualberta.ca/-/media/business/departments/fsa/documents/frontiers-in-finance/2017/miyajima.pdf

- Ezaki bought an active investment manager's large holding in the company after the financial crises and retained the shares in treasury stock. It later sold the shares through a financial institution ensuring that the large holding was resold to a number of small investors.
- FANUC bought a large parent company holding and held the shares in treasury stock. The 18% was equivalent to the largest shareholding in the company.
- Nintendo where repurchases from insiders were used to acquire shares in an internet company and develop an alliance in the interests of both companies.

The paper claims that these cases supported the premise that the repurchases were used for control reasons and that repurchases in Japan are frequently used to increase insider ownership and protect against changes in control.

Cancelation of treasury stock after repurchase was shown to enhance return; however, only 30% of shares bought back were actually cancelled.

The paper and presentation concluded that the whole repurchase programme must be carefully examined to understand the purpose of the transaction.

Response by discussants:

Academic Discussant: Professor Melsa Ararat

Professor Ararat was of the opinion that the results did not support the strong emphasis on the "control concerns." She pointed out that all we know is the association between repurchases and dissolving of bank shares (and decreasing insider ownership) in addition to other text book drivers of stock repurchases. She stated that the ownership effect was not demonstrated and there was not adequate data on ownership changes over the period.

She enquired:

- How the "pressure" on dissolving bank shares work?
- How did it affect the ownership and board structures during the period of investigation?
- What percentage of outstanding shares was held by foreign investors?

She suggested:

- Perhaps a richer set of company covariates help to understand the motivation for repurchases; R&D/Sales, growth rate, market share, capex/PPE, free float, interlocking directorships, Keiretsu affiliation and ownership characteristics to understand how private benefits materialise.
- She noted that off-auction purchases require qualified majority voting of the shareholders in Japan.
- In addition, she noted that the paper needed more clarity about the concepts, variables, and methodology used and the presentation needed to be better organised.

Practitioner Discussant: Peter Montagnon:

Peter Montagnon observed that it was a very interesting paper and presentation. There appeared to be a connection between buy back and control which was mitigating the diversification of shareholders. The data presented suggested the real purpose was to avoid a so called disruption of external shareholders.

Buybacks are legitimate for the right purpose. However, capital allocation is a fundamental task of the board and decisions are required in the interests of all shareholders. Dividends are often preferred by shareholders. The alternative to buybacks and dividends is to invest in the business. The decision should be carefully considered with reference to the cost of capital.

It appeared that the purpose in Japan was to create a friendly shareholder base. A recommendation was made for more discipline and transparency.

Floor discussion:

Delegate, United Kingdom:

Suggested that his experience of Japan was different. He pointed out that Japan had changed since 2014 where it appeared the data for the paper ended. He claimed the new standards of corporate governance had added directors to boards that were adding financial input to decision making. He pointed out that sometimes the reason for buybacks was to counter the impact of convertible preference shares. He also claimed that the impact on remuneration in Japan was not as material as in Europe and the US.

Response by Professor Miyajima:

- He pointed out that the ownership variable was unique in Japan. According to his research the transaction method was critical. Auction through ToSTNeT enabled companies to achieve their purpose of restricting ownership to insiders and entrenching management.
- He agreed with the delegate's observation that stock repurchasing in Japan is changing and that this may be a sign of changing corporate governance.

Session Three: State Ownership and Corporate Governance

- Presenter: **Professor Dr Terence Gomez**, University of Malaya, Malaysia: "Ministry of Finance Incorporated: Ownership and Control of Corporate Malaysia"[4]
- Discussant: **Professor Yuen Teen Mak**, NUS Business School, National University of Singapore
- Discussant: **Pru Bennett**, Head of Investment Stewardship APAC, BlackRock, Hong Kong

[4] See: http://www.tandfonline.com/eprint/QgtVZCdDEcUkchvjdcg6/full

Session Report

- Rapporteur: **Chris Hodge** Governance Perspectives Ltd, UK

The issue

- Using Malaysia as a case study, the session explored the effects that different forms of state ownership and influence could have on the corporate sector, and the implications of these interventions for companies and investors.

In many countries, the state has a significant ownership presence in the public market. In itself, this is neither a good or bad thing, and there may be economic and social policy objectives that it can help to achieve. But the way in which this influence is exercised can have a significant impact of the performance of individual companies and the market as a whole, and on the ability to attract external investment.

Sometimes the actual or potential influence that the state has will be clear, for example if it has preferential ownership rights or the ability directly to appoint management. In these circumstances, investors are able to apply a discount when making their investment decisions. But in many cases, the level of state and political influence is less immediately visible, with the result that its impact can be harder to determine.

Important questions

- Is it possible to achieve genuine separation between the state's ownership and regulatory functions?
- How can state control and influence be used as a means of driving improvement in corporate performance rather than propping up poor practice and management or being used as a form of political patronage?
- What impact does state involvement have on other investors' ownership rights and ability to influence management, and on the management's ability to operate in the interest of all shareholders?
- What can be done to ensure investors understand the risks involved in investing in markets and companies where the state is an owner?

Presentation

The session considered a presentation from Professor Gomez in which he gave a preview of some of the observations contained in his forthcoming book, "Ministry of Finance Incorporated: Ownership and Control of Corporate Malaysia".

Professor Gomez opened by describing some of the political characteristics of Malaysia. Like some other East Asian countries, it is a dominant party state which is highly interventionist and controls a significant segment of the corporate sector. Uniquely, since 2001, the roles of Prime Minister and Minister of Finance have been combined. In this capacity, the head of state controls a

body called Minister of Finance Incorporated, which in turn owns a number of companies including a number of investment funds known as Government linked investment companies (GLICs).

The GLICs attained particular prominence after the East Asian financial crisis of 1997, when the Government intervened to bail out companies, including some that had previously been privatised in the 1980s, and remain extremely influential. Professor Gomez's research found that they have an ownership interest in 35 of the top 100 Malaysian companies who between them account for 40% of total market capitalisation. In total, the GLICs have a direct or indirect interest in over 68,000 companies, and a significant presence in many important sectors such as banking and the media.

While the state retains considerable control over the corporate sector, the means by which it sought to exercise that control has changed in some respects. Prior to the 1997 financial crisis, it was common for members of the ruling political party, AMNO, to be directly involved in the ownership and management of companies, including some of those that had been privatised. Reforms instituted after the crisis reduced these numbers considerably, as the Government recognised that companies would be likely to perform better if they were professionally run. As a result, a large number of corporate professionals were brought in to take charge of these companies, with broadly beneficial results in terms of corporate performance.

However, while the state and politicians tended not to be directly involved in the operational management of companies, it did not mean they had relinquished control. While senior managers tended to be professionals, the majority of chairmen were current or former politicians and bureaucrats. This meant that the state retained the ability to intervene in the running of the company if it felt it necessary.

In conclusion, Professor Gomez considered that the Malaysian example demonstrated that an authoritarian state could also be a responsive state if it recognised that it was in both the party and country's interests to have a strong economy and well performing companies. But this should not be mistaken for a willingness to give up control. It may be latent rather than blatant, but the ability to exercise control remained; as did some of the risks created by state influence in the corporate sector such as political patronage and susceptibility to corruption.

Comments from Discussants

Professor Mak noted that, while different structures were in place, there were a number of parallels between the experience in Malaysia and in Singapore.

The primary sovereign wealth fund in Singapore, Temasek, had at least a 15% stake in about 30 listed companies either directly or through another government-linked company, and an ownership interest in many more private companies. As with the Malaysian funds, its approach to exercising control had

changed over time, in part prompted by governance reforms to the Singapore market.

For example, Temasek no longer directly appointed a number of directors in proportion to its level of ownership as it used to do. However, an analysis of the composition of the boards of the 30 companies showed that, while the majority of CEOs were professionals, two-thirds of the chairmen had state, political or Temasek affiliations and that one-third of companies had over 30% of their board members who were in some way affiliated with Temasek.

Professor Mak concluded that while reforms might achieve separation in form between the state's regulatory and ownership functions, separation in substance was harder to achieve.

Pru Bennett emphasised that public governance and state involvement in listed companies were issues of concern to institutional investors, and had an influence on their willingness to invest in certain markets. For example, the discount in the Korean market was estimated at 10%, while in Malaysia BlackRock only invested through its passive, not active, funds.

The quality and independence of the board and management were important considerations for institutional investors. While the quality of management in Malaysia and Singapore may not raise concerns in the way that it did in some other markets with partially state owned public companies, such as China, political influence on the selection of directors would always raise questions about whether the board was able to act in the interest of all shareholders, which in turn affected institutions willingness to invest.

Floor discussion

A representative of Bursa Malaysia pointed out that, as far as the regulatory regime that the Bursa operated was concerned, Government linked companies received no special privileges and were subject to the same rules as other public companies. Regulatory decisions were made by independent regulatory committees. She also noted that the Government linked companies could play an important role in helping to lead corporate governance reform in the Malaysian market.

In response, the panellists expressed their admiration for the corporate governance reforms that Bursa Malaysia had introduced and for the independence it had demonstrated, but took the view that the possibility of improper influence was inherent in state ownership of companies. This was not a criticism of the Bursa, but a political reality.

Other comments raised in discussion included:

- The state often had a dual mandate as owners, to look after the interests of citizens as well as to deliver economic development. While this meant that its interests and those of other shareholders were not always fully aligned, it

was nonetheless in the interest of all owners that the company was well run.

- While it could be argued in Malaysia and elsewhere that the professionalism of Government linked companies had boosted the local economy, it needed to be asked whether the same level of state ownership was needed now that those improvements had been achieved and whether too much control had been conceded in the process of achieving them.
- It was important that investors understood, and were educated in, the political risks involved in investing in markets where the potential for political interference in the running of public companies existed. This may be something that ICGN could assist with.

ICGN Academic Day Agenda

13:00 – 13:30 **Registration**

13:30 – 13:45 **Welcome and introductory remarks**

- **George Dallas**, Policy Director, ICGN, UK
- **Professor Dr Norma Mansor**, University of Malaya, Malaysia

13:45 – 14:45 **Session one: Gender diversity in boards**

- Presenter: **Professor Renee Adams**, Professor of Finance, University of New South Wales, Australia: “Lehman Sisters”
- Academic discussant: **Thomas Clarke**, Professor and Director of the Centre for Corporate Governance, UTS Business School, Australia
- Practitioner discussant: **Claudia Kruse**, APG Investments, Netherlands
- Rapporteur: **Tracy Stewart**, State Board of Administration of Florida, USA

14.45-15.45 **Session two: Share repurchases and corporation control**

- Presenter: **Professor Hideaki Miyajima**, Director of Waseda Institute for Advanced Study (WIAS), Waseda University, Japan: “Share Repurchases and Control of the Corporation: The Evidence from Japan”
- Academic discussant: **Professor Melsa Ararat**, Sabanci University School of Management, Turkey
- Practitioner discussant: **Peter Montagnon**, Institute of Business Ethics, UK
- Rapporteur: **David Couldridge**, Investec, South Africa

15.45- 16.15 **Coffee break**

16.15-17.15 **Session three: State ownership and corporate governance**

- Presenter**: Professor Dr Terence Gomez**, University of Malaya, Malaysia: “Minister of Finance Incorporated: Ownership and Control of Corporate Malaysia”
- Academic discussant: **Yuen Teen Mak**, Professor, NUS Business School, National University of Singapore, Singapore
- Practitioner discussant: **Pru Bennett**, Blackrock, Hong Kong
- Rapporteur: **Chris Hodge**, ICSA/The Governance Institute, UK

17:15 – 17:30 **Closing remarks**

- **Rita Bushon**, Managing Partner, RAA Capital Advisory and Head of Investor Engagement Steering Committee, 30 Percent Club, Malaysia
- **Kerrie Waring,** Executive Director, ICGN