Journal of Business Ethics (2005) 59: 163–174
DOI 10.1007/s10551-005-3412-1

Corporate Governance and Institutional Transparency in Emerging Markets

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ABSTRACT. This paper posits that differences in corporate governance structure partly result from differences in institutional arrangements linked to business systems. We developed a new international triad of business systems: the Anglo-American, the Communitarian and the Emerging system, building on the frameworks of Choi et al. (British Academy of Management (Kynoch Birmingham) 1996, Management International Review **39**, 257–279, 1999). A common factor determining the success of a corporate governance structure is the extent to which it is transparent to market forces. Such transparency is more than pure financial transparency; as it can also be based on factors such as governmental, banking and other types of institutional transparency mechanism. There may also be a choice for firms to adopt voluntary corporate disclosure in situations where mandatory disclosure is not established. The Asian financial crisis of 1997–1999 and the more recent corporate governance scandals such as Enron, Andersen and Worldcom in the United States and Ahold and Parmalat in Europe show that corporate governance and business ethics issues exist throughout the world. As an illustration we focus on Asia's emerging[1] markets, as, both in view of the pressure of globalization and taking into account the institutional arrangements peculiar to the emerging business system, these issues are important there. Particularly for those who have to find an accommodation between the corporate governance structures and disclosure standards of the Emerging system and those of the Anglo-American and Communitarian systems.

KEY WORDS: Asia's emerging markets institutional transparency, corporate governance, international business systems

The Asian financial crisis of 1997–1999, and the more recent corporate scandals such as Enron and Andersen in the United States have illustrated the importance of effective corporate governance systems and the linkage to business ethics throughout the world. They have also shown that no country has a perfect corporate governance system, and that in the international context of the 21st century the ideal system is most likely to be a holistic combination of several existing successful systems.

The revival of interest in comparative economics, political, social organizations and institutions in academic research has been around the issue of competing models of capitalism, or *business systems*. The trigger for this was the sustained success of the German and Japanese economies, which provided an alternative model of political economy often called 'alliance' or 'Communitarian' capitalism (Choi, Kim and Lee, 1996; Dunning, 1995; Gerlach and Lincoln, 1992) and contrasted with the US–UK shareholder driven model. There has also been an intense debate on the reform of corporate governance systems coupled with various initiatives for corporate restructuring in both Anglo-Saxon countries and Communitarian countries (Bowman and Useem, 1995; Choi et al., 2004). In addition, there is a compelling need for an applicable model of business systems for the former Soviet bloc countries as well as other emerging market countries. 21st century corporate scandals such as Enron, Andersen, Worldcom have shown that the financial transparency and shareholder driven model of the United States can also have liabilities in terms of governance and business ethics.

The traditional research definition of the international business environment (such as by Ohmae, 1985, Porter, 1990; Thurow, 1992; Yoffie, 1996) argues that the increasing homogenization of demand, technology and income levels in the three triad markets (U.S., Western Europe and Japan) tends to shape managerial mind sets and decision making in global competition. This view is often extended to the argument that globalization of markets and the convergence of demand under this triad framework allow firms to allocate their resources and activities freely across these three regions, thus leading to increased economies of scale and scope by standardization of products and services, minimization of costs and the formation of flexible organizational structures. The traditional concept of global competition and the triad framework, based on U.S., Europe and Japan is shown in Figure 1.

The *Anglo-Saxon* business system or capitalism (Albert, 1991; Choi et al., 2004) has been economically dominant in the 19th and 20th centuries. Although the term West is often used to describe both North America and Western Europe as a relatively homogenous grouping of countries, in terms of economic and political systems there is a significant difference between Anglo-Saxon countries such as the U.S., Canada, and the U.K. and those of continental Europe. The *Communitarian* business system includes the continental European countries where in contrast to in the Anglo-Saxon countries their business system emphasizes the role of the government in economic and social affairs, the close linkages between banking and industry, and the group orientation of society and Communitarian values. In sum, this stakeholder-based system is fundamentally different.

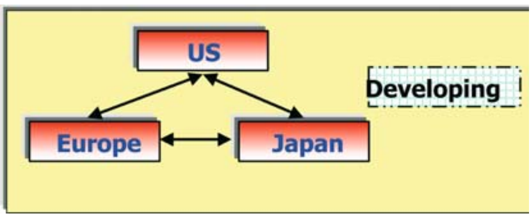

Figure 1. Traditional models in international management – geography and wealth based (Adapted from Choi et al., 1996).

The *emerging market* business system refers to a broad range of countries that are rapidly entering the world business system. They include some of the East European countries, Asian countries such as some provinces of China (e.g. Shanghai, Guangzhou, and Shenzen); Malaysia; Thailand; Indonesia; the Philippines and some of the Latin American countries such as Mexico, Chile, and Brazil. These countries in turn have to be distinguished from the developing countries of the world, such as, in Asia: Burma, Laos, Cambodia, India and some provinces of China. Due to their phenomenal economic growth, the emerging markets have become a key focus for personal and institutional investors as well as for international corporations. However, as said, there is also a need to appreciate the differences even among the mature economies of the world, especially between the Anglo-Saxon business system and the Communitarian business system. Figure 2 shows our revised view of the key divisions in international business systems.

Institutional factors and corporate performance

Many researchers have discussed the importance of national institutions and capabilities: Stopford and

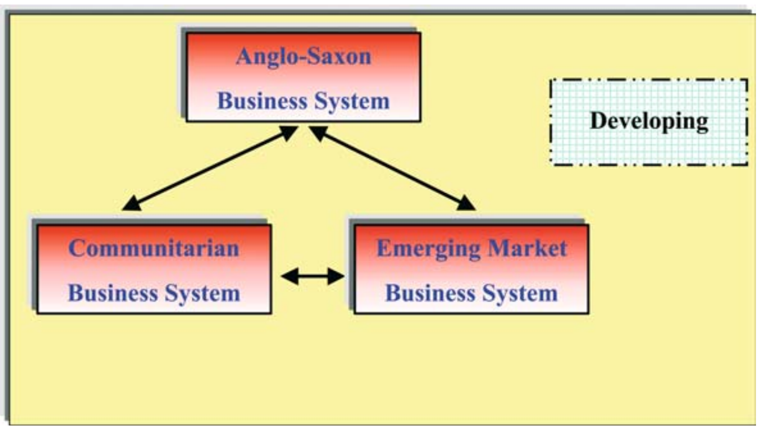

Figure 2. International business systems framework.

Strange (1991), Lodge (1990), Doz and Prahalad (1984) on business–government relations; North (1990) and Williamson (1985) on economic institutions; Kogut (1991), Shan and Hamilton (1991) on technological capabilities and national systems of innovations; Sorge (1991) and Huntington (1996) on social contingencies and elective affinities; Whitley (1990), Child and Monir (1983) on comparative forms of business organizations and management systems. These works, elaborating on the global standardization and local adaptation debate, have helped to analyze the complex realities of institutional and organizational diversity that still persist in today's increasingly converging business environment. We further suggest that the business system of a country or a group of countries consisting of various institutional and cultural factors is a crucial determinant in analyzing the differential modes of organization and strategy as well as differential rates of performance in today's global competition.

Global competition can be seen from the viewpoint of what motivates and constrains firm strategy and behavior in today's global business environment. Such factors of influence include national culture, legal and regulatory environment, business–government relationships, the role of financial institutions, and corporate governance systems in the home country as well as the host countries of multinational firms, which all can enhance or impede business. It is worth reiterating that globalization and the competition between competition-driven countries do not mean that differences between the latter and the economics-driven countries do not exist. The importance of the national business environment in influencing the organizing principles and competitive strategies of firms has been analyzed in Stopford and Strange (1991), Kogut (1991), and Albert (1991), revealing that domestic institutions play as important a role in determining corporate behavior as the pressures of globalization. For example, in many parts of Asia, it is not the financial markets but various government ministries that monitor corporate performance and control financial allocation.

In many continental European countries such as Germany and Switzerland the banking sector as institutional shareholders monitors corporate performance and investment decisions (Baums, 1992; Kim, 1995; Macey and Miller, 1995; Schmidt et al., 1997). Firm behavior and strategy, especially investment decisions such as new market entry, diversification, innovation and new product development can be significantly constrained by the differences in home market institutions while at the same time providing sources of competitive advantage that may or may not be transferred across national boundaries. These constraints in turn determine the scale and scope of collaborative activities across national boundaries. Hence, in spite of the global nature of today's competition, the political, economic, and socio-cultural effects of home market institutions can have both positive and negative influences on firm capabilities and competitive advantage.

As for Asia's emerging economies, their relationship-based institutions have resulted in a business system characterized by a concentration of ownership and control of corporations and banks by families. This is quite apparent in Indonesia, the Philippines and Thailand, where the largest 10 families control half of the corporate sector in terms of market capitalization (Claessens et al., 1999b).

A high concentration of corporate ownership and control of corporations by families in all of the countries concerned has led to governance structures that enable the dominant shareholding families to make key decisions on their own. Appointments of board members are almost entirely in the hands of those families in control of the firms (Nam et al., 1999). Therefore, there is a possibility of conflict of interest between dominant shareholders, managers and the minority shareholders. This structure enables expropriation of minority shareholders (Aoki and Kim, 1995; Claessens et al., 1999a, 2000; Lehmann, 1996; Phan, 2001), something which is less serious in Malaysia than in the other countries concerned. The concentration of ownership by families has been supported by legal arrangements that enable them to exercise a high degree of control over the firms. Examples are the deviation from the one-share-one-vote rule that has led to more minority shareholder expropriation and the absence of mandatory disclosure of connected interests creating a fertile ground for self-dealing with expropriation as a result.

The market-based literature links concentration of ownership to the role of institutional investors in monitoring and influencing firms' investment and financing decisions. In this respect, the picture is different in Asia's emerging markets as evidence suggests that ownership by institutional investors is generally small compared to the situation in more advanced countries. For instance, in 1999 in Thailand domestic banks and other financial institutions owned around 13% of the 150 largest listed companies (Nam et al., 1999). Furthermore, institutional investors do not actively participate in the governance of firms even when they do possess a significant proportion of shares. The inherited relationship-based style of corporate governance is one of the fundamental drivers of concentration of ownership, which, accompanied by lack of transparency, has turned out to be one of the causes of the region's economic crisis. Asia's emerging markets tried to liberalize their markets without having the proper economic and legal institutions required, such as an adequate degree of disclosure and corporate governance transparency. However, this does not mean that emerging economies should immediately set out to copy either the Anglo-Saxon market-based business system or the continental European communitarian business system (Phan, 2001). As discussed earlier, economies in the emerging markets business system have their own institutional foundations that cannot be ignored and, above all, that have been significant elements in economic progress, resulting in a recognizable business system which merits examination in its own right.

Institutional transparency in Asia's emerging markets

Not only the realities however of today's complex business environment including the pressures from capital markets, principal–agent relationship and the importance of information flows, but also the existence of a hitherto little-analyzed business system, warrant a reexamination of the traditional models of corporate governance.

Given the importance of institutional factors as a differentiator for the emerging business system, this leads to the need to consider the issue of 'institutional transparency', which we define as follows

> *Institutional transparency is the extent to which there is publicly available clear, accurate information, formal and informal, covering accepted practices related to capital markets, including the legal and judicial system, the government's macroeconomic and fiscal policies, accounting norms and practices (including corporate governance and the release of information), ethics, corruption, and regulations, customs and habits compatible with the norms of society.*

The lower the level of institutional transparency in a country, or the more practices that weaken institutional transparency grow, the higher the cost of investing, and the weaker a country's ability to attract new businesses and external capital (PricewaterhouseCoopers, 2003). At the level of the individual institutional transparency is closely related to accountability and the information that is disclosed to a firm's stakeholders who are, in turn, affected by the structure of corporate ownership.

In stressing the importance of institutional transparency and accountability to the broader society and policy makers, it is important to take into account the constraints and motivations that drive firms' performance in the different business systems. Figure 3 highlights the different catalysts of financial and institutional transparency.

In line with such differences the nature of coordination and information flows is different across business systems with different roles played by institutions such as the stock market, banks, the legal system, and the relationship between government and business.

Market-based versus relationship-based corporate governance and institutional transparency

The traditional market-based corporate governance models focus on the financial practices that aim at governing corporate performance (American Law Institute, 1982, 1990; Cadbury, 1993; Charkham, 1989; Hart, 1995; Kay and Silberston, 1995; Lowenstein, 1996; Shleifer and Vishny, 1997; Williamson, 1988). We infer that these models assimilate institutional transparency with the disclosure and dissemination of financial information. In this regard, financial transparency is complemented by information dissemination through the role played by the market intermediaries. Organizational perspectives of financial information dissemination were examined in the literature too. Diamond (1984),

Figure 3. Catalysts of financial and institutional transparency.

Mayer (1988), Rajan (1992) and von Thadden (1995) show the important role the financial intermediaries play in information gathering and monitoring. Holmström and Tirole (1993) examined the market microstructure perspectives and concluded that decentralized market trading can support the collection of information.

Market-based institutional transparency. According to the agency theory's costs of debt and equity (Jensen and Meckling, 1976) the governing lenders will discourage transparency, as this would endogenously undermine the value of their claims. In contrast, firms governed by shareholders' interests prefer greater transparency, as information disclosure on average increases profitability as well as risk.

The influence of banking finance on a firm's financial disclosure shows that bank-dominated financing relationships are less transparent to external observers, thus discourage information gathering by investors (Bhattacharya and Chiesa, 1995; Boot and Thakor, 2001; Hedge and McDermott, 2000; Perotti and von Thadden, 2001). In contrast, market-based financing results in more corporate information disclosure to both investors and competitors (Perotti and von Thadden, 2001).

Asia's emerging markets' relationship-based institutional transparency. Although the above was found in market-based business systems, similar observations can be made in Asia's emerging markets whose business system is characterized mainly as a relationship-based system. Since the early days of economic development when Asia's emerging market firms were largely financed by bank loans influenced by government, close links developed between the firms, their banks, and the government through a business system of family ties and political deal making (Nam et al., 1999). Neither firms nor banks within this relationship-based system felt much need to develop corporate governance mechanisms, since the former were able to rely on banks to continue to finance their projects and the latter felt relatively comfortable under explicit or implicit government guarantees. In addition, the governments adopted policies that resulted in less transparency and hence an environment in which investment could continue despite market forces, and which eventually contributed to the economic crisis witnessed at the end of the 20th century. We posit that one of the underlying aspects of the relationship-based corporate governance of Asia's emerging markets is the governments' orientation towards providing subsidized credit to firms in targeted industrial sectors and implicitly sharing their investment risk. In this sense, subsidies acted against institutional transparency for as long as the subsidized firms did not have to raise capital for investment openly and with explicit reference to likely market demand and competition, both of which would have been addressed in adequate disclosure to outside investors. At the same time outside investors had little incentive to invest heavily given the weak legal infrastructure that protected their rights and the resultant lack of corporate transparency (Hirakawa, 2001; Rajan and Zingales, 1998). Given the market imperfection in Asia's emerging economies, penalization of outside shareholders was an inevitable outcome that they could have avoided if the business system had been more transparent to them.

Since it is insulated from price signals and lacks monitoring and discipline from the capital market it is clear that the relationship-based business system has the potential for resource misallocation (Calomiris and Rammirez, 1996; Hoshi et al., 1991; Peek and Rosengren, 1997; Weinstein and Yafeh, 1998). Here we observe a contrast with the market-based corporate governance with which e.g. US investors are quite familiar. Market-based corporate governance would allocate financial resources through explicit contracts and associated prices. To the extent that contracts are inevitably incomplete, investors who supply funds to a firm are better protected if the firm is equipped with corporate governance mechanisms that show a higher level of transparency. This has very important implications for Asia's emerging countries in transition in that, as an economy moves to a well-functioning market-based system, it requires substantial changes to its corporate governance system to ensure that there is the transparency necessary to permit a market in capital to operate.

It is worth noting at this stage that we are not trying to stereotype the above mentioned characteristics of the relationship-based corporate governance as identical in each of Asia's emerging economies. In fact, there exist significant differences between two groups of countries in the nature of corporate governance systems and their legal infrastructure for property rights protection (Nam et al., 1999). Malaysia appears to maintain internationally more familiar standards in corporate governance and has developed a more sophisticated and adequate legal system to protect property rights than the rest of the emerging countries, and is following Singapore and Hong Kong in this respect. A low level of property rights protection and weak enforcement, loose operation of lending institutions and ineffective regulation of the financial sector are characteristics shared by Indonesia, Thailand, and the Philippines, more in line with Korea.

Institutional transparency and voluntary versus mandatory disclosure in emerging markets firms. As said above, the issue of institutional transparency arose in relation to the dissemination of information and disclosure to the firms' stakeholders. This calls for exploring whether firms are motivated by business strategy reasons and/or legal obligations to be transparent to the market and disclose the relevant information to the their stakeholders.

From a legal point of view, research has indicated the necessity of having strong and effective laws and institutions as prerequisites for mandatory disclosure and for building strong capital markets (Black, 2001; Coffee, 1999; Levine, 1998; Levine and Zervos, 1996; Pistor et al., 2000). To build a strong stock market, the aim of the law is to protect minority shareholders' rights against insiders' self-dealing and provide shareholders with the right information about the value of a firm's business (Black and Kraakman, 1996; La Porta et al., 1997; 1998a,b, 1999). Black (1998) argues that controlling information asymmetry is essential for building a strong stock market. Mauro (1995), Kumar (1996), Modigliani and Perotti (2000) and Ho (2001) studied the relationship between legal effectiveness and capital market developments and documented an inverse relationship between corruption and economic growth in general and the strength of public securities markets in particular.

It is the objective of law to set rules for firms to disclose the relevant information to the investors, especially minority shareholders. This, however, depends on building strong and effective financial and legal institutions, which both normally take a long time to become effective – certainly to the extent of affecting the availability of external finance. In addition, as Asia's emerging markets business system is based on family and concentrated ownership coupled with a weak legal infrastructure, there are fewer incentives to protect minority shareholders' rights than were the legal infrastructure strong or the ownership in the hands of multiple shareholders.

Banks are considered the other financial institution that can provide an alternative and complementary source of financing (Levine, 1998). In the emerging markets, the role of the banks in corporate governance transparency can be viewed by looking at the extent to which they are allowed to provide finance and investment in the non-financial business sector. In general, banks in Asia's emerging economies do not behave as western institutional shareholders. Below, we provide a summary of their role (Nam et al., 1999). We focus on whether banks can act as intermediaries whose role is to monitor the firms to which they are lending and by their selection and behaviour can signal the situation in those firms, thus to show the extent to which banks can play a role in institutional transparency.

1. Malaysia: Most banks are controlled by conglomerates. But the central bank prohibits banks from providing loans to related firms.

2. The Philippines: Many financial institutions and non-financial corporations are under common family-based ownership. Accordingly, regulatory frameworks have been established for preventing banks from heavy involvement with firms.
3. Thailand: Thai banks were able to hold a controlling share in listed companies through their equity shares in holding companies, which are not subject to any investment restrictions. Nevertheless, Thai banks were restricted in directly holding shares of listed non-financial firms; a 10% ceiling was imposed on equity shares.

The history of Asia's emerging markets business system shows that the banks were playing a more viable role in financing firms in the earlier stages of economic development. Carlin and Mayer (1999) conclude that bank finance is more appropriate for capital-intensive industries and low levels of economic development – characteristics well observed in Asia's emerging markets. In addition, corporate governance literature states that bank-centered capital markets may be stronger than stock market-centered capital markets in ensuring that the firms are not only honestly run, but also well run (Black, 2001).

The mechanism that this suggests is one which gives priority to creditors' rights over shareholders' rights. In general, for firms in the emerging markets to grow in a global competitive environment, they need external finance faster than having to wait until new legal requirements help build minority shareholders' confidence. Strong confidence requires enough time, good experience and benchmarking. Hence it is banks that can be a more reliable source of finance; and access to 'inside' information can help them protect their rights and turn them into more patient capital suppliers – which is a characteristic common among banks in other business systems (Eldomiaty, 2001).

Mandatory disclosure is constrained by two factors. First, the evolution of the business system of Asia's emerging economies, which favors family and concentrated ownership, which reduces the potential role of outside shareholders and provides a parallel, family-based channel of influence and information for other stakeholders. Second, the role of the banks as providers of long-term capital, which in the past further reduced the incentive for open disclosure to the market of potential outside shareholders. Finally the limited extent and reliability of the legal infrastructure means that even mandatory disclosure rules might not provide adequate protection to minority shareholders' rights.[2]

In view of the global competitive pressures and the orientation of Asia's emerging economies to conform to International Accounting Standards (IAS) regulations, disclosure policies could be guided by either or both legal and competitive motivations. In the absence of legal requirements voluntary disclosure becomes an option. However, firms need to avoid being stuck between mandatory law-based disclosure and voluntary disclosure. The criterion would be to adopt whichever disclosure approach most positively affects the firm's market value. Gonedes (1980) and Verrecchia (1982) conclude that as mandatory reporting requirements become more detailed, voluntary disclosure may decline.

Dye (1986) examined the relationship between mandatory and voluntary disclosure and value-maximizing policies and also showed (Dye, 1990) that when the two types of disclosure coincide the process of setting mandatory disclosures is simpler. Holland (1998) concludes that private corporate voluntary disclosure is associated with the desire to create favorable institutional and market states, with external benchmarks and pressures on companies for high quality communication. This conclusion underlines the great importance for firms in Asia's emerging markets to adopt voluntary disclosure practices as a means to strengthen their position in the market, while law-based mandatory disclosure is not yet well established. Equally so as a precursor to the establishment of such mandatory transparency with the improvement in capital availability that can be expected to follow from it.

Determinants of institutional transparency: Perspectives from the comparative international business systems

The diversity of interests of capital suppliers, and interests in general among a firm's stakeholders requires reexamining the issue of the firm's transparency generically and concerns the dominant influences in the traditional international business systems. The existing literature tends to focus on comparisons between the American and British system driven by the financial markets, as opposed to the Japanese and German systems that have a strong role for banks and the government (Baums, 1992; Gilson and Roe, 1993; Prowse, 1992; Schmidt et al., 1997). Analyses of the Japanese and German corporate governance systems include Gerlach and Lincoln (1992) and Franks and Mayer (1992). However, we posit that international business also includes the emerging systems. There are emerging countries such as Malaysia, Thailand and the Philippines who have a different corporate governance system and need institutional transparency. We posit that the extent of institutional transparency is influenced by two factors: the orientation of the institutional infrastructure and the foundations of the business system in each economy.

Institutional orientation. In the emerging economies, the institutional infrastructure is tied, among other things, to the degree of economic progress a country is targeting. Thus, a firm in an emerging or transitional economy can be transparent only to the extent to which its position in relation to these targets will not be impaired. This risk is especially severe in transitional economies as there the dominant factor of corporate governance is banking finance (Aoki and Kim, 1995) working within the targeted framework.

In developing economies, such as in Asia, Burma, Laos, Cambodia, India and some provinces of China, the issue of institutional transparency is closely associated with the governments' willingness to expose business to financial market forces. These could undermine the observed mode of corporate governance, i.e. the control and/or direction of business affairs by the government directly (Gray, 1996; Klipper, 1998; Kunetsova and Kuznetsov, 1998; Pannier, 1996). The amount of progress in their privatization programmes these developing economies are able to achieve can be taken as a good measure of the extent to which transitional firms can be transparent, i.e., willing to disclose information relevant to their financial market position.

Foundations of business system. Although the concept of institutional transparency is required to a certain degree in all countries, the principles and mechanisms differ depending on the historical development of business systems in each country.

Where business management is dependent on the availability of capital the transparency is to those whose decision affects the allocation of capital and the institutional structures mediating this may diverge from those familiar in the Anglo-Saxon business system. Where they operate through banks there may appear to be similarities with the continental European system, but there remain important differences arising from historical factors such as the influence of families, and developmental factors such as the influence of government-driven targeting.

Transparency serves to assist in ensuring good governance; the temptations to which management is prey are guarded against, and the information on which management is basing business decisions is subjected to external checking. Although the transparency mechanisms in the emerging system economies do not include mandatory disclosure to the widest audience, there are mechanisms embedded in the institutional structure which expose management to a significant degree of checking. The institutions concerned are ones which are sensitive to national and oligarchic priorities, rather than short-term economic gain and stock market value for the individual firm.

In assessing the legitimate expectations of outside shareholders and the appropriateness of the conduct of managements and institutions in areas of disclosure, it is important to understand these differences. The different modes of corporate governance and information disclosure can have an important influence on the strategic behavior of firms and their performance. The above discussion suggests that the type and degree of institutional transparency is an indicator of the market position and degree of competitiveness a firm can achieve within its own business system. In the global arena, however, the type of institutional transparency required in order to attract capital and build a successful business may well be different. For firms and managers in emerging business systems there is the challenge of reconciling these; and for observers of behavior in the area of disclosure it is important to relate the behavior to the business system, local or global, and the institutional environment.

Conclusions and further research

The Asian financial crisis of 1997–1999 and the more recent U.S. corporate scandals such as Enron, Andersen and Worldcom have shown that there is no ideal system of corporate governance in the 21st century. This paper has advocated that institutions and business systems are fundamental and that the most effective systems may follow a holistic approach, combining different aspects of various systems in existence throughout the world. This paper first presented a redefinition of the traditional comparative business systems framework (Choi et al., 1996, 1999), which used to be focussed on pure economic competition within the global economic triad of the U.S., Western Europe and Japan. Our new framework which focuses on the triad of the shareholder-interest driven Anglo-American business system, the stakeholder driven Communitarian system of continental Europe and Japan and our newly defined Emerging business system takes into account the reality of the local, non-economic forces that influence firm capabilities and behaviors.

Our research shows the influence the business systems have on the practices of corporate governance, whereby transparency is considered one of the determinants of the success of corporate governance modes. Institutional transparency is closely related to the information that is disclosed to a firm's stakeholders who are, in turn, affected by the structure of corporate ownership. Information disclosure, thus transparency, is affected by the institutional arrangements typical for a certain type of business system, among which is the effectiveness of legal institutions that set boundaries between mandatory and voluntary information disclosure. Global competitive pressures call for firms to move sufficiently rapidly and not to have to wait for new disclosure laws to tell them what, where, why, how, and when to disclose relevant information to their stakeholders. However, this does not diminish the importance of necessary improvements in company law and bringing effective enforcement to the market.

A more "holistic" business systems approach is needed because no country or region has the perfect system in the 21st century.

Further research can be developed in a number of ways. First, the corporate governance implications of our new comparative business systems framework need to be validated. Second, the framework can enrich the ongoing research on national systems of innovation and technological capabilities (Kogut, 1991; Nelson, 1991; Shan and Hamilton, 1991) in the sense that we have shown how national institutions can provide strategic constraints on, and advantages for, firm performance. Third, there is a requirement for further research on the determinants of the transparency of the firm and its relation to firm value. And also, how to arrive at a more holistic approach to business systems and answer the need for better understanding of the issues of governance and transparency globally.

Notes

[1] We follow the World Bank / IMF definitions: Developed: per capita income greater than $10,000 dollars (in Asia: Japan, Korea, Taiwan, Hong Kong, Singapore); Emerging: per capita income between $1000 & $9999 dollars (in Asia: Some provinces of China; Malaysia; Thailand; Indonesia; the Philippines); Developing: per capita income less than $1000 dollars (in Asia: Burma, Laos, Cambodia, India, some provinces of China).

[2] This conclusion contrasts with that of legal scholars who advocate the idea of forcing firms to disclose information. See also Coffee (1984), Easterbrook and Fischel (1991), Mahoney (1995) and Admati and Pfleiderer (2000).

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