The Second Asian Roundtable on Corporate Governance

The Role of Disclosure in Strengthening Corporate Governance and Accountability

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Synopsis

The bubble burst on July 2, 1997, when the Thai baht was floated, really shocked all Thais and sent the "TomYam Kung Disease" spreading quickly throughout Asia and other major parts of the world.
That so many countries which together had created an Asia Miracle should have succumbed to the same economic and financial crisis simultaneously did call for a real soul searching to prevent a reoccurrence. Once is more than enough in this case.

It did not take too long a time for all in Asia, and especially in Thailand, to realize that the root causes of the crisis originated from mismanagement and mismatching of funds namely borrowing short but lending out long. Cronyism and nepotism were also common throughout and did exacerbate the root causes further. Lack of a strong internal control system, robust internal audit practice, and convergent accounting and auditing practices, are the five main areas of weaknesses. In short Thailand and the whole of Asia had not been aware of and practicing good corporate governance principles. That's why the crisis had happened.

Whilst the Thai government had rushed in to contain damages brought about by the financial crisis and had managed to stabilize the baht value, brought down the interest rate, put a firm hand on inflation, accelerated debt restructuring negotiations, and started a financial structural reform, good corporate governance practices and the accounting and auditing reforms have to be promoted and implemented for both the public and private sectors. Here lie all the problems and difficulty. Most business firms in Thailand are family owned and financed by the family owned money. Thus, the need to raise capital in the stocks market is not necessary and hence any disclosure leading to what they consider as of trade secrets is taboo.

The Thai government however fully appreciates the need to encourage corporate governance practices and did pass a cabinet resolution to have an audit committee set up for each and every ministry in March, 1999. These ministerial audit committees have been fully appointed by the end of 1999 and already started working. In addition, in April 2000, the cabinet also set a mandate for each state-owned enterprise to establish an audit committee.
However being a new body, there might be a need to educate, train and guide all members how to carry out their responsibilities to help achieve the ministerial objectives. All listed companies were asked by the Stocks Exchange of Thailand to appoint an audit committee before the end of 1999. It is clear that Thailand already has the three categories of audit committees, - government, state-owned enterprise, and listed company.

On the professional front, the Institute of Internal Auditors of Thailand (IIAT), being a national affiliate of IIA, USA, has also embarked on a grand plan to create awareness of and promote right understanding as well as good practices in corporate governance in Thailand through contribution of regular newspaper articles, organizing own live TV talk show which is the first of its kind in the world, an annual conference and a Best Practices Contest on good Corporate Governance, to name but a few.

Thus it can be concluded that much efforts from both the public and private sectors have gone into building an awareness of and promoting implementation of corporate governance practices in Thailand. A satisfactory progress has been registered. But this is just the beginning of a long journey. The author would like to invite all who cares and is interested to debate and recommend better ways to promote best practices of good corporate governance in Thailand.

If successful, the Thai case may serve as a model for other countries to learn from.

I. Introduction

People never stop wanting financial security for themselves and their families. What is wrong with that? But they often want more, much more than they should ethically and fairly get. Imbalanced capitalism provides greater opportunities for money-driven executives and staff to achieve financial satisfaction. The focus is on earning bonuses based on short-term results - which creates a motivation to manipulate short term results to achieve their own ends. But what would happen if such strong desire and cravings are not being met as much. Will it lead to an abuse of authority and finally to some form of fraud and corruption.

The issues of good corporate governance and anti-corruption almost led to the failure of the Bangkok Declaration: Global Dialogue and Dynamic Engagement, resulting from the United Nations Conference on Trade and Development (UNCTAD X), in Bangkok, Thailand, between 12-19 February 2000.

Diversities in belief, culture, law, religion, race etc. are essential, but they are not sufficient to survive in today's global environment. A certain level of convergence is required to establish "the global rules of the game".

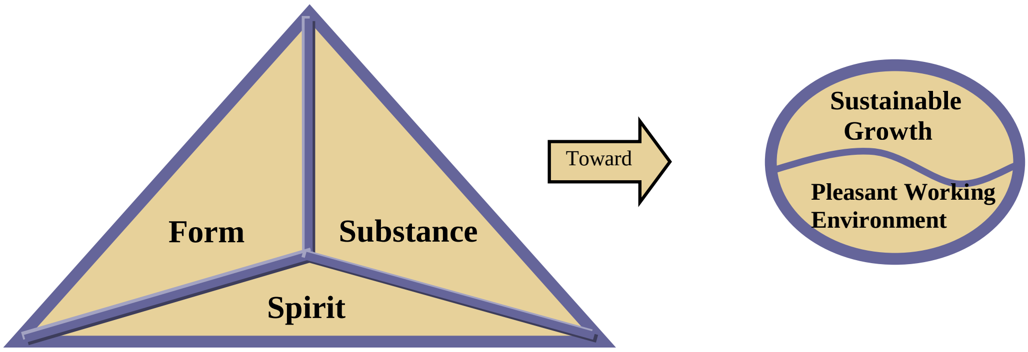
The OEDC and the World Bank, amongst other national, regional, and global bodies advocating good corporate governance frameworks and practices, have been continuously developing and promoting the establishment of good corporate citizenship throughout the world.

It is evident that good corporate governance is "a must" and a "timeless" agenda for executives, regulators, legislators, investors, shareholders, suppliers, customers and the public at large. The board of directors is the central and principal driving engine to establish good corporate governance practices and communicate them to stakeholders, not focusing only on shareholders as was the common practice in the old days.

Thai people in the Government, companies, professional bodies and communities must share a common belief in the value of being a good corporate citizen in the global financial, capital, trade and services markets. The "Fast eats Slow" syndrome has become a reality in the 21^{st} century. Fast moving "money" and "people" create greater risks to individuals, corporations, governments and ultimately, the whole world. Thailand must develop strategies to cope with these risks which are emerging in an increasingly interdependent world. In the context of the opportunities and risks created by technological evolution, opening markets and globalization, the paramount or ultimate objectives of Thai people, companies, communities and the government must be the promotion of sustainable growth, profit and happiness.

Thai corporate governance has evolved from the robust Thai philosophy of ethical values, and a selective adoption of international principles of good corporate governance. Our approach is a holistic one, combining "form", "substance" and "spirit" to make up Thai corporate governance.

Figure 1 : Thai Corporate Governance Model



The professional bodies, such as the Institute of Internal Auditors of Thailand (IIAT), leading private companies and state-owned enterprises, such as Siam Cement, DBS Thai Dhanu, EGAT, EGCO, PTT Exploration, and regulatory bodies such as Bank of Thailand (BOT), Securities and Exchange Commission (SEC), Stock Exchange of Thailand (SET), play vital and complementary roles in education, development and promotion of good corporate governance frameworks and practices in Thailand.

The efforts of many Thai companies to practice good corporate governance are producing dividends in the form of a faster and robust recovery from the current crisis, which can be attributable to their ability to gain both competence and trust from their creditors and financial sources. Unfortunately, the number of such companies is not big enough. That makes it even more urgent for Thailand to accelerate a more widespread transformations for more Thai companies to adopt and implement good corporate governance practices.

II. What is the common language of corporate governance?

Corporate governance does not have a common language - not only in Thailand, but around the world. **The Toronto Stock Exchange Committee on Corporate Governance in Canada (1994)** defined corporate governance as :

> **"The process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business.**
>
> **The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, the board of directors and management."**

The Commonwealth Association for Corporate Governance (1999) views corporate governance as:

> **"Corporate governance is essentially about leadership:**
> - **Leadership for efficiency;**
> - **Leadership for probity;**

- **Leadership with responsibility; and**
- **Leadership which is transparent and which is accountable"**

The Institute of Internal Auditors of Thailand (IIAT) defines corporate governance (1999) as:

> **"Corporate governance is the integration of "form", "substance" and "spirit" to shape leadership and communication in doing business.**
>
> **Good corporate governance reflects a robust corporate governance framework and practice requiring competent and ethical people, structure, systems, processes, and methodology to manage and monitor performance of the whole organization for the collective benefits of stakeholders and shareholders."**
>
> **Whilst differences do exist especially in the added dimension of "Spirit" in the Thai and Asian context, from that of the West, a convergence of "form" and "substance" is evolving and should eventually embrace the "spirit" part as well.**

III. The value of transparent disclosure

The Thai economic recovery has been evident since early 1999. The exchange rate, inflation rate, foreign direct investment, exports, unemployment and the real interest rate are under control and properly managed. When we consider successfully recovered and profit making companies, we find a common factor - good corporate citizenship – a commitment to uphold god corporate governance principles and practices.

On the one hand, good corporate citizenship successfully helped raise low-interest-rate-funds in both domestic and international markets, sold non-core businesses at reasonable prices, trapped targeted strategic partners and restructured debt with favourable terms. On the other hand, thousands of companies in Thailand who do not believe in corporate governance could not produce similar favorable results, regardless of the size, business, family background or historical profits.

The myths of concealing corporate information are: to protect "trade secrets", "accounting figures are only good for fulfilling regulators' requirements", "luck is unique to a particular individual and leads to success", etc. But in the increasingly interdependent world, one can not solely or chiefly rely on "secrets", thus opportunities created by technological revolution, opening of markets and globalization must be secured by "trust". Equitable sharing of information, knowledge, and wisdom will lead to opportunities in broader markets.

The focus should therefore fall on the people leading and working in any companies to behave ethically, transparently and with integrity. Leading by good examples under and established code of conduct would be much preferred here.

The rule of thumb of disclosure is - the more you want to cover up, the more people want to discover. To have more than one set of accounting records is a common practice in certain companies. There are questionable benefits for the price of doing so. Banks are reluctant to lend money to those companies or individuals, strategic partners stay away and good people have no incentive to be employed.

Adequate financial disclosure inevitably requires a set of Generally Accepted Accounting Principles (GAAP), a robust internal control system, sound IT systems, accepted auditing standards, minimum requirements for financial disclosure and a legal framework as the infrastructure of disclosure standards.

Equally important to financial disclosure is non-financial disclosure which is now more and more requested by investors, creditors, lenders and the public. The required ingredients of non-financial disclosure are : the code of ethics/conduct, management style, leadership of the board and management, reputation assurance programs and the effectiveness of board's standing committees such as audit, nomination, remuneration and risk management.

Any standard-surpassing disclosure will be well received and favorably reacted to by all groups of stakeholders. Companies with the least disclosure are in a difficult situation. They must spend more money establishing systems and measures to impress potential investors, answering questions raised by the public, regulators, employees and customers and they waste management time and effort in dealing with non-productive ad-hoc issues.

IV. Environment Causing "Corporate Disclosure Gap"

The **"corporate disclosure gap"** known among practitioners, professionals and regulators is caused by **"traditional backward-looking"** historical cost based reporting models which do not provide the relevant "forward-looking" information demanded by participants in the capital markets.

With investors broadening their horizons beyond national borders, the need for global harmonization of financial reporting has never been greater. Thailand, as a global good corporate citizen, is facing the challenge of ensuring that financial reporting keeps pace with the world it serves, and continuing to be responsive to the needs and demands of investors, lenders and creditors, as well as inspiring confidence in global capital, financial and trade markets.

This broad "corporate disclosure gap" is not the fault of management, nor is it the fault of investors or analyst. It is the fault of a financial and non-financial reporting system that is out of date, and not suitable to "service knowledge based" corporations. Examples of this include the ignorance of know-how as a key driver of corporate values in traditional financial reporting.

We must look for an alternative - to provide the right environment in redesigning Thailand's financial reporting model in compliance with generally accepted accounting principles (GAAP) and the investors' demands in a "forward-looking" information for both financial and non-financial. Independence and objectivity hold the key to success for Thai professionals, business leaders, public policy makers and regulators to establish suitable environment in producing such financial and non-financial reporting models.

Accounting-related professional bodies must urgently be established to provide assurance of independence and objectivity as well as effectiveness, offensive conflict of interest among various aspects of accounting, could escalate. One should therefore study the structure of interdependent of these agencies in the U.S. as a guideline
.

Depicted as :	**Professional body**
Accounting Theory / Principles	• American Accounting Association (AAA)
⇩	
Accounting Treatments & Financial Accounting	• Financial Accounting Standard Board (FASB)
⇩	
Management Accounting	• Financial Executive Institute (FEI)
⇩	
Auditing	• American Institute of Certified Public Accountants (AICPA)

Each professional organization is independent but they complement each other. This environment provides reasonable assurance of professional objectivity and independence. The consolidation of all aspects of accounting into a single professional body creates a real obstacle for corporations in Thailand to meet the challenge of filling the gaps of "corporate disclosure", "information", "reporting" "perception" and "quality". Thailand's policymaker, legislators, regulators, business leaders and professionals must jointly face the challenge of restructuring the environment to facilitate greater professional independence, objectivity and competence in producing reliable and marketable reports to meet market expectations. In Thailand's current environment, at least five new professional bodies should be established as a self-regulated organization responsible and accountable for the issues of 1). Accounting theory or principles, 2). Accounting treatment/financial accounting, 3). Management accounting, 4). Cost accounting and 5). Independent auditing.

Investors always rank non-financial information such as market share, new product development and leadership of board and senior management, as important clues about a company's performance, especially as this is "forward looking" information. Having reached this end, Thailand must also proactively create and promote independent and competent professional bodies dealing with non-financial and forward-looking reporting models. Not surprisingly, a string of organizations, besides the IIAT, must exist such as, the Thailand Society of Good Corporate Citizenship, Thailand Corporate Governance Association, Institute of Directors and the Independent Directors Association. These organizations would be dedicated to specific issues which do not create conflict of interest but provide synergy and complementary roles.

The government, SEC and SET, should take more drastic action in pushing such a transformation process through legislature and introduction of new roles and regulations. To allow transformation to take shape naturally would be too slow.

V. Diversification of GAAP

Similarities and differences among Thai GAAP, U.S. GAAP and International Accounting Standards (IAS) create difficulties for corporations operating in Thailand to communicate with the global investment community and other markets. We are convinced that clear and open communication can deliver 1). Enhanced investor confidence and fund raising capabilities; 2). Improved comparability with international peers; 3). Adaptable financial reporting: 4). Consistent financial information to potential strategic partners or stakeholders.

Since Thailand is an open economy, companies need to present their performance in a way that is easily understood by the competitive global markets. Given globalization, financial reporting, as well as non-financial reporting, reaches a wider audience than ever before, an audience who demands relevance, transparency and creditability in financial reporting.

Factors influencing the financial reporting environment in Thailand are :

- Investor demand : Demand for high-quality, uniform financial reporting.
- Consumer demand : Customers’ investment decisions are based on clear information about a company's performance, financial status and other relevant information.
- Technology : Cheaper and more powerful computers together with dramatic telecommunication improvements are the driving force in solving physical barriers.
- Globalization : Resources move swiftly in the new global economy in response to converging major industries.

Thai GAAP must be realigned to match with IAS rather than US GAAP as the two are fine tuning for a convergence. Though Thailand is inclined to follow US GAAP, it would benefit more by aiming to align herself with IAS in order to be in line with the more international practices and communities. To transform Thai GAAP into IAS is a true challenge for Thais. A great deal of time, money and effort would need to be invested to set up global benchmarking to allow investors to look at the financial information of a company's competitors too, whether based in the same country or in other parts of the world. It is evident that financial reporting is not easily understood by global users, leading to difficulties in bringing new business or capital to a company.

According to the requirements of the Comptroller General Department, Ministry of Finance, state-owned enterprises must be audited by the Auditor General and must apply certain accounting treatments required by the Comptroller General. Toward this end, state-owned enterprises' reports reflect greater complexity and more divergence than other corporations' reporting.

To change to IAS will not be easy and will need ample efforts, time and money.
The heart of such a tailored-made transition project lies in the detailed review of all aspects of individual accounting principles and methods or treatments, comparison to IAS requirements including options, if available, on an "issue by issue" basis.

Thailand SEC, as a member of IOSCO, has a need for a core set of standards for global capital markets. Due to the complexity of the IOSCO organization, core standards development was completed in 1999 and IOSCO members will report back to the Technical Committee in 2000. Toward this end, requirements, as part of the standards, including cash flows, business combinations, hyperinflation and many more, are in place or in the pipeline.

VI. Disclosure initiatives taken by regulatory bodies

The Securities and Exchange Commission (SEC) of Thailand, as the Thai regulatory body for listed companies and public companies, the Stock Exchange of Thailand (SET), as the self-regulated organization for listed companies, the Bank of Thailand, as the regulator of commercial banks and other financial institutions and the Ministry of Commerce, as the regulator of insurance sector, play a role in issuing rules, regulations and measures. They focus chiefly on "hard side" characteristics and give little weight to "soft side" characteristics.

In January, 2000, the SET published a Thai language version of "Good Corporate Governance". In its role as the regulator of listed companies, the SET published several booklets during 1997-1999, including "The Roles, Duties and Responsibilities of Directors" (December 1997), "Code of Best Practice for Directors of Listed Companies" (1999) and "Best Practice for the Audit Committee" (1999).

In addition to publications, in 1997 the SET commissioned Price Waterhouse to conduct a comparative survey on the Corporate Governance environment in Thailand versus international practices. In 1997, it also commissioned the IIAT to study practice guidelines for audit committees in USA, UK, Canada and selected Asian countries, leading to a mandate for every listed company to establish an audit committee by the end of December 1999.

The Development of Thai Accounting Standards (TAS) can be summarized as follows :

- State of Thai Accounting Standards (TAS) before the Asian crisis

  Before the Asian crisis, TAS has issued 31 standards and most of them were based on International Accounting Standards (IAS) and US - Generally Accepted Accounting Principles (US-GAAP). These issued standards have never been updated.

- Development and implementation of TAS

  The Institute of Certified Accountants and Auditors of Thailand (ICAAT) is responsible for developing TAS. ICAAT issued ICAAT Announcement No.010/2540-2542, “Policy of Setting Thai Accounting Standards” that TAS would be based on IAS and if there is no IAS in that accounting topics, ICAAT would set up TAS in accordance with US-GAAP. We can conclude that TAS are basically IAS with certain modifications to align with Thai business environment. Now we have 48 TAS to be adopted with accounting period beginning on or after 1 January 2000.

- Lack of specific information and updating process

  The following topics in TAS appear inadequate, missing or poorly updated :

  1. Financial Instruments : Recognition and Measurement
  2. Income Tax
  3. Discontinuing Operation
  4. Segment Information (existing TAS but not being updated)
  5. Employee Benefits
  6. Insurance Business
  7. Government Grant
  8. Event After Balance Sheet Date (existing TAS but not being updated)
  9. Provision, Contingent Liability, Contingent Asset (existing TAS but not being updated)
  10. Construction Contract (existing TAS but not updated)

- Policy level in response to problems on lacking or poor reporting from TAS

  ICAAT plan to issue new TAS to cover all missing topics before 2003, and after that we can say that TAS will be up to date with IAS and shall be kept abreast with new development within IAS..

- Role of accounting profession and companies in developing TAS

  ICAAT is the only accounting profession responsible for developing TAS. In the process of development of TAS, ICAAT tried to solicit many public hearings from members, users of financial statements, private and public company, governmental and tax authority.

- Problems on implementing improved standards

  Culture and individual mindset were the major problems in implementing the new TAS. Thai people are generally familiar with verbal discussion rather than formal disclosure in writing. Hopefully after having tried to seek opinion and participation from various groups, ICCAT will come up with TAS which are acceptable to every group.

Some highlights of Thailand's financial disclosure development in chronological order are:

1989 : Accounting Standard # 13 "Disclosure of Related Party Transactions".

1992: Accounting Standard # 23 "Information Disclosure in Financial Statements".
SEC's Announcements regarding several filing rules of securities offerings.

1995: Accounting Standard # 27 "Financial Disclosure for Banks and Financial Institutions".
SEC amended announcement of 1992.

1996 : SEC announced the Form no. 18-19/1996.

1998 : SEC amended the announcement of SEC in 1992.

1999 : SET amendment of the 1996 announcement.

2000 : Accounting Standards # 48 "Disclosure of Financial Instruments"

There are no specific requirements for non-financial disclosure. However, guidelines, instructions and policies of the SEC, SET and BOT were announced in the area of corporate governance and reports.

VII. Major issues in adequate disclosure

Major issues in adequate disclosure result from the imbalance between "technical capability" and "mindset". Debate on these two opposing approaches cause dissent amongst regulators, legislators, management, and other stakeholders.

Mindset problems are the major cause of disclosure failure rather than technical capability. The examples shown below are widely evident and commonly accepted.

- Focus on shareholders, not stakeholders;
- Protecting minority shareholder rights, not equitable treatment of all shareholders;
- Investors must run the business to protect their own interests;
- Regulations are necessary evils;
- Auditing practices are "generic services" rather than "professional services";

- Legal measures are essential and comprehensive;
- Disclosure leads to disadvantage in competitive situations;
- "Everybody-else-does-it" (providing insufficient information) mentality is widely held;
- No direct links between "disclosure efforts" and "value added" obtained from the market.

Technical capability problems include:

- Professional bodies associated with financial disclosure are not seen or perceived to be as independent and objective as they should be. The GAAP, GAAS and other managerial accounting matters are established, developed and evolved within a single professional body.
- The public accountant's oversight body is not truly independent from accounting firms and other potential conflict-of-interest parties.
- The GAAP applied in Thailand may contain gaps due to local requirements and the current environment.
- Outdated and insufficient internal control systems can not provide reasonable assurance on the integrity of data, flow, process and reporting.
- Inadequate risk management systems accelerates compliance risk.
- Improvement of internal audit quality is too slow to respond to the changing environment.
- Low level IT applications limit improvements in transparency. Outdated information provides no value in the decision making process.
- Audit fees are artificially low, leading to questions regarding audit quality.
- Divergence of Thai GAAS from those of the USA and Commonwealth countries may create skepticism in non-Thai users of financial reports.

VIII. Board oversight on disclosure

Most Asian Boards of Directors concentrate only on legal or regulatory compliance rather than "raising the bar". Moral, ethical, cultural and social obligations or responsibilities take the back seat.

Pressures from international market players have been continuously experienced in Thailand in the last decade. Institutional investors, creditors, lenders and regulators are among the other stakeholders who can create obvious pressure through "the stock of choice" approach, lending requirements and minimum standards for listed or public companies.

Since January 2000, every listed company in Thailand must establish an audit committee responsible for financial disclosure, as an assurance body to the Board. This is a significant step, paving the way to improve the quality of financial disclosure. Three to five members of an audit committee must be independent from management. Technical issues regarding the definition of independence are unclear. Board oversight responsibility for financial disclosure has now been transferred to the audit committee.

The essential requirements for companies to reshape or reengineer their internal control systems, accounting principles and treatment, information systems and risk management systems are the true indicators reflecting room to improve the quality of board oversight responsibility for financial disclosure.

The minority of independent directors in prevailing boards is a weakness of the independent oversight responsibility. Major shareholders, with the mindset of "entrepreneurship" care more for their own interests than for professionalism and tend to choose and appoint hand-picked CEO, President, Chairman of the board, directors and independent auditor.

Interlocking shareholdings among shareholders and management has long been common in Asia and Thailand is no exception. The definition of "independence" is not clearly defined in the Thai Stock Exchange listing rules. Without a clear definition of an independent director, shareholders (in turn self-selected to be directors) completely ignore "objectivity". There is insufficient "independence" and "objectivity" of independent directors serving on the audit committee.

An audit committee is intended to be the architect and engineer of adequate financial and non-financial disclosure to all stakeholders in an equitable manner. The committee must understand "audit risk" - the probability that material errors will not be detected by external auditors and internal auditors.

During this transitory period, which may last for some years, some audit committee members, especially those who are accountants by training, may fail to exercise "oversight capacity", but focus instead on re-performing, to some extent, the activities of a public accountant.

Given the traditional mindset of those public "family-owned" companies, management - the key shareholder or representatives of the major shareholders - is not willing to make disclosures that meet market expectations. Oversight responsibility for audit and control has been shifted from the main board to the audit committee.

Whenever the "interlocking benefit" approach is the choice of major shareholders, structurally, an audit committee cannot properly discharge its oversight responsibilities. The audit committee cannot, in any real sense, objectively and independently recommend the right "external auditor". Conceptually and logically the audit committee must assure the independence of external auditors. The argument often made by management is that they are not accountable for the content and facts of financial statements. They are the auditor's financial statements. Auditors in Thailand insist that management is responsible for preparing financial reports and are accountable to the public and all stakeholders, not only shareholders, as used to be the case.

Mandatory measures issued by regulatory bodies such as the SEC, SET, BOT and the Ministry of Commerce are the minimum requirements, but the majority of CFO's, accountants and CEO's have the perception that these are the maximum standards or the code of best practice. Innovative mandatory measures are required to improve the oversight capacity of the audit committee and the board of directors.

Voluntary measures have set the tone through the continuous and dedicated advocation of the IIAT on the value of good corporate citizenship. The success of the first corporate governance contest in November 1999 has triggered large companies' board members and management to improve the quality of disclosure by endorsing the principle of "transparency", one of the six key principles of good corporate governance advocated by the IIAT.

There is growing awareness of the development and evolution of voluntary measures to improve the quality of disclosure. The education and promotion of corporate governance on the regular TV program - "Transparency 360 degree" - reflects true commitment from business leadership and creates a moral obligation among business leaders, regulators, the public and other stakeholders.

Public oversight and pressure are becoming more common for blue-chip companies. The press are asking tough and sophisticated questions to business leaders in areas beyond financial reports. Human rights, human dignity, social responsibility and equitable treatment within stakeholding groups are the issues raised by activists, reporters, analysts and public at large.

IX. The board of director's role in overseeing disclosure

Since the common number of independent directors is three out of fifteen or so, it is almost impossible for the board to properly oversee disclosure matters. More importantly the competence, independence, persistence and courage of those independent directors is questionable in many cases.

Due to current board structures and prevailing practices, it is clear that there is a big gap between board practice, the Code of Best Practice for Directors of Listed Companies (1999) and internationally accepted codes of best practice.

The SEC and SET play vital roles in establishing minimum standards for listed and/or public companies to disclose certain material transactions or events. Simultaneously, the SEC and SET have strengthened public accountants' practices through a higher standard of reporting, compatible to international standards.

The existence of an audit committee in a listed company provides greater impact, triggering more favorable oversight from the boardroom. In addition, the Cabinet mandate in 1999 stipulates that every ministry and independent public organization must have an audit committee consisting of three to seven truly independent members from public administrators and ministers. The Government Audit Committee Guidelines are undertaken by a steering committee.

Given the situation where major shareholders provide their representatives to be board members and management, market players have not reacted directly and swiftly to effect company business transactions or performance or reputation, or the stock prices.

True positive incentives for management and the board to increase the degree of disclosure from the required level are not evident. Investors and lenders could vote against or for companies on daily basis through the "dollar voice".

Management and boards will gradually become aware of encouragement or promotion schemes from the professional bodies such as IIAT. The TV program on corporate governance and the inaugural annual contest on **Best Practice in Corporate Governance Awards** in November 1999 have set the tone from the top for companies to be good corporate citizens.

The paradigm shift in Thailand is paving the way to better disclosure standards in order to restore trust, assure reputation and present themselves as good corporate citizens in the international community.

X. Governance disclosure and non-financial disclosure

Each listed company must disclose governance and non-financial information in the financial statements through the message of the chairman of the board as well as that of CEO. The governance disclosure is the only tool allowing investors, strategic allies and others to understand the **"future"** of the company. The assessment of visionary leadership translated into day-to-day management, cascading down to the lower level staff can be done only through a good corporate governance framework and process.

It is evident that the "reputation" of any company is its single most valuable asset. Reputation can not be built by big dollars, but by ethical competence and accountability of the board members, CEO, management and staff. No one can grow a reputation for a company, reputation is gained by a company's own efforts.

Preferred governance and non-financial disclosure topics advocated by IIAT and others consist of a visionary statement, market share, results of operations, dynamics of the business, capital structure, treasury management, future investment or divestment (a three years period), liquidity, corporate governance framework and practices, business ethics, employee reporting, environmental reporting and value reporting. Governance and non-financial information is needed to convey the full picture of the company, which is not provided by the numbers in the financial statements.

Thai capital and financial markets, along with markets around the world, have gradually entered a syndrome of convergence and internationalization. After the Asian crisis, the Thai financial market structure has switched from dependence on funds from banks or financial institutions to money markets in Thailand and overseas. Good corporate governance, more specifically, transparent disclosure, is the principal criteria for lenders, creditors and investors.

Transparent disclosure speaks louder than any public relations or advertising program. It should provide a balanced, readable and predictable picture of the company's past, current and future performance.

The SET has initiated competition in annual reports amongst listed companies in the last decade, with the main objective of encouraging listed companies to improve the quality of financial disclosure through annual reports. However, this ensures that, only one part of the picture to fulfil market expectations has been addressed.

Issues arising from governance disclosure include; board composition, leadership, compensation and performance related schemes, diversity and unity, independence and objectivity, dedication to the company (years of service), structure and process of governance, equitable treatment, balance of long-term and short-term achievements, infrastructure for good corporate governance such as risk management systems, internal control systems and IT solutions.

Traditionally, very few Asian and Thai companies arrange remuneration packages for directors and management based on experience and competence. Most board members, with the exception of the chairman, take the same remuneration package; an executive director normally gets several times more than a non-executive director.

Disclosure of collective compensation amounts for board members and executives is common in Asia and in Thailand. By the same token, the corporate governance information is reported in generic terms rather than tailor-made information.

The SET issued the Code of Best Practice for Directors of Listed Companies in September 1999, which provides suggestions for a listed company board reporting to regulatory entities, shareholders and investors. However, further clarification on definitions of "independence", "independent director", "shareholders meeting appointing an audit committee", and "disclosure of dismissed audit committee members" is required.

Just recently, on January 28, 2000, the President of the SET distributed a Consultation Paper of Reporting Corporate Governance which compiles comments from listed companies over a six-month period. The Paper offers voluntary guidelines on good corporate governance, expressing principles and practices in six sections, namely, the board, financial and audit reports, information disclosure and transparency, equitable treatment of shareholders and roles of stakeholders, code of ethics and code of business conduct and compliance with code of best practice. Each section's format includes introduction, principle and guidelines.

This Paper is one of the best efforts from the SET to promote good corporate governance, influenced by publications based on the Cadbury Report of the UK. Further modifications to match with Thai culture and family-based preferences of listed companies will provide a better understanding and acceptance among complex stakeholders. It should be noted that the Thai emerging paradigm in the post Asian Crisis era is more complex than ever. It involves family-based management preferences and styles, western-model joint ventures and alliances, as well as Asian-model ones, the new constitution providing more freedom and participation of citizens, human dignity issues, environmental preservation, international financial structure reforms, deregulation but higher standards syndrome, legal reforms, misalignment in governance philosophy, framework, process, substance and spirit.

Since 1997, the IIAT have innovated several measures in educating, advocating, promoting and assisting good corporate governance philosophy, principles, form, substance and spirit to support the regulatory requirements of the SET. The IIAT is well known as **the independent trend and practical guide setter**. They champion the belief that harnessing soft skills will allow management to apply, evolve and translate the "hard properties" required by laws, regulations and rules into the company bottom line and share prices.

The "balance" or "equilibrium" of corporate governance framework and practices require state-of-the-art management skills, not a set of strong rules.

Both **disclosure** and **transparency** are tricky words. Each could easily be perceived in a wide range of ways by different groups of people or even the same person in different situations. We try to minimize the confusion by defining the key attributes of **transparency**. It precise shows the full picture, adheres to accepted rules or principles and is presented in a timely manner.

Corporate governance disclosure spirit allows investors and other stakeholders to have a clearer understanding of the future or potential of the company. In turn, the practice of transparent disclosure is crucial for investor and stakeholder decisions.

The single most effective way to restore or create a company's reputation is if concerned parties perceive that the management of the company has a real spirit of transparent disclosure. Please be reminded, a company's reputation is never recorded in company books but exists in the hearts of investors and stakeholders.

Not many trade secrets can be discovered from transparent company disclosure. In the new century, the thinking of "The Fast Eats the Slow" has surpassed the "Big Eats Small"; yesterday-oriented disclosure practices of providing the enforced or required disclosure will never pay-off.

Investors, lenders and professional employees are searching for a fairly presented picture of a company's future when making decisions. They are willing to take only business risks, not audit risk, or compliance risk. Whenever investors and lenders perceive higher risks, they have to take this risk into account by bidding a lower stock price and offering a higher interest rate to compensate the increased risk. First class professional employees would not consider the company as their first choice of employer.

Since weighted average cost of capital (WACC) is one of the most critical value drivers of any company striving for value chain management and growth in shareholder value, adequate disclosure is a key success factor.

Thailand's economy is transforming from agriculture and basic manufacturing based into a sufficiency economy through a philosophy initiated by His Majesty the king. The philosophy is reflected in the good substance and spirit of the way in which we run business and the way of life for Thai people to achieve sustainable growth and happiness. The philosophy provides a best fit between the knowledge-based economy advocated in US and selected European countries and wisely adopting suitable aspects to complement Thai ways.

This philosophy sets the tone from the top for all Thais and people living in Thailand to wisely choose the appropriate way of life for running their businesses in an ethical and transparent manner. Good governance is the fundamental means toward a sustainable economy and happiness.

The governance substance and spirit of Thailand's corporate citizenship should be known in a number of ways, such as clear and precise rules from regulators, code of conduct/ethics, public relations, news, websites, open dialogues, reflections from stakeholders, popularity index, recognition from independent professionals etc.

It is clear that formal or enforced disclosure practices never surpass the expectations of stakeholders, but voluntary practices always do.

In addition, openness and transparency could save a considerable amount of money for a company. The public can be made aware that the company is a good corporate citizen through coverage in national and international media such as Corporate Governance Bulletin of the Investor Responsibility Research Center (IRRC), Annual Report on Thailand Corporate Governance issued by IIAT for the winners and participants of the annual contest of best practices award on corporate governance, World Bank/OECD publications and other commercial-related publications.

XI. Mandatory VS voluntary measures for disclosure

Mandatory measures issued by the SEC, SET, and BOT are essential but not sufficient to meet the expectations of shareholders and stakeholders. Given the 21st century paradigm shift, an international interrelationship among stakeholders is evident. Not only meeting, but surpassing market expectations reflects a proactively developed attitude of good corporate citizenship.

Voluntary measures are by far more flexible and effective than mandatory ones in response to market expectations for adequate disclosure of information. A board of directors must oversee senior management to identify the need for a broader set of measures to manage the company in identifying external issues and managing external relationships.

Analysts, investors and other stakeholders are also dissatisfied with corporate disclosure practices when they receive inadequate or insufficient information about performance measures and governance practices that they view as essential and important. When this happens, the likely result is a negative impact on stock prices created by higher discount rates for expected earnings and cash flows both in the short-term and the long-term.

Given the increasingly sophisticated focus on value creation in evaluating a company's past and current performance, as well as the predictable future, the market is demanding better information on such straightforward measures as economic profit and return on risk-adjusted capital.

Referring to PricewaterhouseCoopers' "Value and Reporting in the Banking Industry" performed by an independent market research firm in April through October 1999, the survey results reported in this paper clearly demonstrate that :

- The market is excessively focused on short-term earnings.
- The short-term market focus often prevents banks from making long-term value creating decisions.
- Most bank executives believe their shares are undervalued in the market.
- Banks view their disclosure efforts as being better than the market does.
- Communication of some key financial and other performance measures is lacking.
- Banks can benefit significantly by improving their disclosure practices, including higher share prices.

The aforementioned results were drawn from the survey of 39 banks in the U.S., Canada, Australia and Europe. The perceptions of corporate disclosure by banks viewed by banks, bank investors, and bank analysts are remarkably different in the categories of :

- Offer additional information to analysts that we consider relevant or useful.
- Work actively to anticipate concerns and questions and attempt to maintain continuous dialogue with analysis and investors.

In addition, the question of improved disclosure curing the valuation problem was answered by the survey showing that for investors whose decisions set share prices over the long-term, other benefits created by improved corporate disclosure are even more highly valued. U.S. investors are especially optimistic about the impact of improved disclosure on the cost of capital. A majority of 87% say the cost of capital will drop, a belief held by fewer European investors of 61%.

According to the survey, the information gap reflecting market perception of receiving inadequate information about measures it deems important for investors are :

- Customer retention
- Customer penetration
- Quality of management
- Risk management practices
- Market risk exposure

Analysts concerns are :

- IT expenditures
- Customer retention
- Customer penetration
- Market growth

- Market share
- Quality of management
- Asset quality
- Performance by business segment
- Economic profit
- Return on risk-adjusted capital

The proposed reportings for investors and analysts consist of :

- **Strategy :** IT Expenditures, Delivery Channels, Product Innovation.
- **Customers and Markets :** Customers Retention, Customer Penetration, Market Growth.
- **People and Reputation :** Quality of Management, Employee Satisfaction, Brand Equity, Regulatory Reputation.
- **Risk Management :** Risk Management Practices, Asset/Liability Management, Market Risk Exposure.
- **Financial Position :** Capital Management.
- **Financial Performance :** Return on Risk-adjusted Capital, Economic Profit, Performance by Business Segment.

Taking these results into consideration, Thai business leaders, boards of directors, CEOs, senior management, regulators and professionals might speed up to fill in the gap. Once listed companies and public companies create a "reporting gap". One possibility is that investors and analysts do not understand or know how to deal with it. As a result, they simply focus on a few key bottom-line measures, leading to a substantial discount on share prices, and higher interest rates for a higher risk perception, the unpredictable occurance.

Derived from the "reporting gap", a "perception gap" is created when corporations and the market hold different views about how well corporations are satisfying the market's information needs. A positive perception gap results when corporations believe they are providing better information than the market does. Conversely, a "negative perception" gap is created when the market is more satisfied with the information than corporations would expect.

In addition, a "quality gap" is increasingly of concern to investors, analysts and public. The "quality gap" is created when a corporation's management views a particular measure as important but cannot reliably produce information about it on the corporation's internal system.

This "quality gap" can be categorized as strategy, customers and markets, people and reputation, risk management, financial position, financial performance, with the sub-categories specified in the "reporting gap" section.

It is clear that corporation executives do not fully appreciate the extent to which they fail to satisfy the market's information needs. In some cases, insufficient reporting is the direct result of inadequate internal systems to generate reliable information. But in others, and more importantly, it is a conscious management choice. Executive mindset dictates all. Consequently, board members, audit committees, executives, CEO and CFO must seriously reassess their corporate disclosure practices, which derive from an historical model of providing only what is mandated by regulators. More effective is a philosophy of greater transparency, where corporations provide more and better information readily available because it is in their own self-interest to do so.

Much of a company's success depends on managing strategic alliances, suppliers, customers, shareholders, communities, regulators and other stakeholders through a program of value creation, preservation and enhancement. To this end, voluntary measures for disclosure help in a variety of ways:

- **To restore confidence and trust:** In the past, many CEO's and senior executives focused on maximizing shareholder value, leading to a misalignment in the value chain for stakeholders. Furthermore, many managers gauged their success by comparison to prior year results and shareholder (mostly family members) satisfaction. Openness, transparency and ethics are key values creating confidence and trust from stakeholders.

- **Without customers, there is no business:** As a result of the advancing technology in E-business, managers can not gauge their success compared to prior years or compared to peer-group companies in "dollar terms". They must gauge their own performance with that of the "best in class" direct and indirect competitors for the favor of the same customers, shareholders, employees and other stakeholders.

- **To broaden and deepen value-chain relationships:** Companies today are striving for survival and sustainable growth through deepening value chain relationships. Weighted Average Cost of Capital (WACC) is the key value driver in improving shareholder value because of stagnation in volumes sold and stalled prices. Towards this end, cost cutting means improving bottom line and in turn reflecting share values, derived from demand for particular shares. Good corporate governance practices, including transparent disclosure, directly translates to investors, creditors, lenders and other stakeholders as the value chain governance: value creation, value preservation and value enhancement.

- **To broaden and deepen relationships with stakeholders:** Given intensified competition for products, labor, funds and capital markets in today's environment, a company who wants to survive in the long term must secure the loyalty of increasingly powerful customers, employees and shareholders. Management must develop and report measures and practices through an appropriate disclosure mechanism to demonstrate that the company is delivering the value demanded.

- **To provide reasonable assurance of accountability:** Investors, lenders, regulators and the public continue to pressure companies for greater transparency. People outside the company seek reassurance that companies operate with acceptable and predictable performance. The outperformers will be rewarded accordingly, being the first choice of stakeholders.

- **To offer a balanced measure:** Measures of financial, operational and social performance become the common language of strategic execution, from developing goals and initiatives to setting targets and dispensing pay and incentives. Many aim both their internal and external management systems to win in the marketplace for low-cost capital, talented employees, loyal-profitable customers, positive-veined regulators, good and aggressive investors and supportive local communities, as well as having a "good-boy" image in international corporate communities.

- **To effectively provide broaden aspects of information:** Stakeholders are looking for comprehensive information rather than just financial information. They require adequate disclosure of information: leading-lagging, non-financial and financial, strategic and tactical, people and technology etc.

- **To fuel the improvement of performance measures:** The increasing need to improve the way of measuring the performance of organizations is on the shoulders of management accountants, financial controllers, auditors, general managers and professionals. They must improve these measures to raise performance, not because of regulators' requirements. They must improve them to compete with stronger strategies. More importantly, they must improve them to demonstrate accountability to stakeholders for value building. At a minimum, measures and disclosure should reflect financial performance along with, information in two to four non-financial categories, such as customer, employee, internal business processes or governance processes. No "one size fits all "concept can dictate the disclosure needs of each company's business - they must be tailored to suit each case.

In summary

Though one would like to think that Thailand was not aware of and interested in practicing good corporate governance, there are ample evidences that say otherwise. The Buddhist way and the first declaration of His Majesty King Bhumipol Adulyadej upon his accession to the throne that “We will reign with righteousness, for the benefits and happiness of the Siamese people” more than 50 years ago augers well for the course of good governance. Apart from the hard side, Thailand has been emphasizing also on the soft property or the "substance" and “spirit” of good governance. It is believed therefore that the best way forward for Thailand would be to combine the systematic approach of the West to what are already in practice to achieve a better and more complete results.

The crisis has some blessings in disguise especially in bringing together diverse groups to work on a common ground to promote good corporate governance practices in Thailand and throughout Asia which would eventually lead to a more open and transparent environment and business communities. As discussed earlier, trust is more of a keyword among business people and transactions in Asia. It therefore may point to a requirement that Asia may need its own set of key principles on corporate governance which would correspond to and facilitate the achievement of the ultimate objectives for a long term and sustainable prosperity, growth and happiness to all stakeholders.
The search will have to go on until the most appropriate principles and values can be established that will deliver the expected without fail.