

# **GEOPOLITICAL CHANGES and CORPORATE ACCOUNTABILITY<sup>1</sup>**

**The impact of the growing Asian economic power amid increased global uncertainty**

**Peter Verhezen**

Vlerick Leuven Gent Management School,  
Leuven & Gent Campus, Belgium

Department of Management & Marketing, University of Melbourne  
Parkville Campus, Victoria, Australia

Ash Institute for Asian Studies and Governance  
Harvard Kennedy School, USA

Verhezen & Associates Ltd  
Sampoerna Square, Jakarta, Indonesia/Singapore

## **ABSTRACT**

The current global economic crisis and financial meltdown have aggravated the global challenges of changing international power structures and unsustainable corporate (herd) behavior, all resulting in greater *global uncertainty*. The geopolitical context has changed with the USA slowly losing its sole super-power status though nobody is able to challenge yet its military might. Economically, Asian nations and corporations are slowly moving in a position that will push them to take a more leading role and hopefully share a more *responsible* global leadership role. Only by acknowledging the growing interdependency, one could partially counter the current global strategic uncertainty. This essay will emphasize how corporate *governance structures* and principles through *visionary and engaged spirited leadership* could result in responsible investment that integrates and aligns financial and societal objectives, hopefully sensibly addressing global challenges within an increasingly interdependent global society.

**KEY WORDS:** *global strategic uncertainty as result of financial crisis, the emerging power of BRIIC countries, public and corporate governance principles, responsible investments within a new geopolitical order*

---

<sup>1</sup> Dit essay is opgedragen aan Professor Dr. Erik Faucompret, wellicht mijn eerste intellectuele mentor tijdens mijn studies International Economie en Internationale Relaties aan het toenmalige UFSIA (1980-1984). Maar Erik is ook een vriend gebleven over al die jaren. Ik wens hem het allerbeste met zijn emiritaat tijdens dewelke hij zich wellicht nog meer op films zal storten. Het ga je goed mijn vriend.

*"World peace cannot be safeguarded without the making of efforts proportionate to the dangers which threaten it."*

*Jean Monnet*

This paper analyzes the new reality of economic players within a changing geopolitical framework of power and influence amidst an ongoing financial mortgage meltdown and economic crisis. Economically, Asian nations and corporations are moving into a position that will subtly push them to share some of the leadership responsibilities coming along with enhanced global power. This analysis is nothing more than an attempt to provide an idea of how to responsibly deal with a chaotic future – by definition uncertain – through enhanced cooperation and global collaboration in a multipolar world order. We are convinced that good relations of trust - based on subjective emotions of hope might bear some goodwill between the leaders of the multiple political and the corporate power centers in the world - are necessary to materialize some reasonable political and economic stability. Globalization does not need to be the battle ground of increased poverty and ecological disasters but could hopefully also function as a fertile ground of reasonable peaceful co-existence and responsible collaboration among firms and governments that might benefit all the participants of this functioning core of interdependent global members and a number of leading “super-partners”.

This paper will firstly analyze some reasons why a lack of responsibility and weak governance practices – along some fundamentally systematic and institutional flaws in the current global economic growth model - is at the root of or has definitely aggravated those apparently unrelated crises and corporate ethical debacles. Greed, neglect and ignorance cannot be a valid excuse for those corporate failures. Secondly, the growing global interdependence and fast growing Asian economies and the energy might of Russia are slowly changing the current geopolitical context, likely resulting in a multipolar geopolitical order with a functioning core of a number of superpowers or partners. Finally, a quest for more conscious corporate responsible behavior could be translated in (1) converging good governance principles on the one hand (2) by a visionary speculative and committed leadership that hopefully (3) can sensibly emphasize the importance of “responsible” investments in sustainable energy, more ecologically sound products or services and more affordable health care and improved sustainable health care technology on the other hand. Moreover, better insurance and risk tools aligning with such conscious behavior might reduce some of the global uncertainty or unpredictability.

## *GLOBAL UNCERTAINTY AS RESULT OF THIS FINANCIAL CRISIS*

Crises do not come unannounced. We just do not seem to respond to those tacit or explicit indications till too late. The Sub Prime Mortgage Crisis in the U.S.A. shows that the price to be paid for lacking transparency and accountability in the securitization process of mortgage loans (Collateralized Mortgage Obligations or CMOs) has proven to be very costly in terms of loss of credibility, reputation, market share and value. Excessive credit, excessive leverage and excessive funding were at the root of the subsequent panic in September-October 2008 that led to systemic illiquidity and insolvency to be rescued by the respective governments in the world<sup>1</sup>.

What can be learned from this particular crisis? Illiquidity is contagious. Moreover, more responsible behavior in terms of appropriate risk and oversight management (as part of corporate governance) is a *conditio sine qua non* to possibly avoid such debacles in the future. Although hedge funds are usually better equipped than regulators to monitor risk, one pushed the bottom of risk-taking profitability a little too far. By imposing enormous reserves for risk taking, money was pushed away by securities houses and investment banks – which are comparably less dictated by regulatory oversight than traditional banks - to off-balance sheet activities out of sight of the regulator. Excessive greed motives for example overtook the fear for too high risks within the opaque hedge-fund business based on the (apparently correct) assumption that the downside risk could be mitigated to government[al bail out]. It is acknowledged that a governance problem should not be equated to a regulation problem. Having a variety of markets and instruments, institutions, government intervention and global oversight coordination can help the system to regain some form of confidence rather quickly. Financial infrastructure should be strengthened. Moreover, central banks should be able to make the distinction between financial engineering and financial innovative “risk-taking”. Obviously, the private sector needs mechanisms to absorb this crisis, and not just put the tax burden on the public at large. Such improved mechanisms will imply some form of governmental regulation that underpins the support for the financial sector without stifling innovative and creative new products and services. However, the “Washington consensus” who advocated a strong belief in open, free markets, and general acceptance of faith in the efficiency of the market, presumably worldwide, seems to be in retreat in the face of the current global financial meltdown. Moral hazards linked to the market mechanism needs to be minimized by better oversight, less opacity and stricter accountability – in other words by better governance -, not by more bloated regulations that could cause to aggravate the current crisis situation. It can be suggested that in the short term the government has no choice but to bail out which unfortunately has the side effect of encouraging and aggravating moral hazard as in people acting irresponsibly because they expect a bail out in case of failure (Shiller 2008; Rajan 2010).

In the long term, an improved information infrastructure, and thus transparency and accountability, is needed allowing people and firms to use an improved knowledge base through transparency processes. The role of policy-makers is not only to enforce current laws, but to promote institutions that facilitate market discipline (Low, 2005). Second, commitment to value creation through or under the constraint of moral values, social norms and a legal framework will help a more conscious, responsible and accountable corporate leadership to prepare and implement visionary strategies. It is within limit(ation)s that a system can optimally function. The USA, UK and Japan opt to “spend” their economics out of the crisis by an enormous stimulus package under the minimum regulatory constraints of systemic risk. The EU, especially Germany and France, emphasize the need for global regulation to prevent such contagious international crises again in the future. Their aim is to push for far more transparency in the financial global transactions, relying on an existing social security system on the old continent that hopefully will cushion most of the atrocious social consequences of this crisis. That leaves China and Russia to strategically exploit the division in interpreting a contextual solution. Moreover, the G20 – taking over the function of the G7 and G8 - has recently agreed on some global principles to address the current economic financial crisis and prepare the framework of a new “global world order”, whatever that means. The devil – as always – lies in the details.

Policy-decision-makers should not overreact and should focus on prudential not excessive regulation of the financial system. Greed needs to be tempered by fear of losses; if you bail people out, there is logically less fear. Prudential regulation and supervision should avoid certain excesses. It is recommended that policy makers enhance sensible and market oriented regulatory constraints that allow entrepreneurial creativity and innovation but also penalize those that act irresponsibly and deliberately cross ethical and ecological thresholds. Legal threats and governance oversight enhancing responsible behavior should therefore be strictly enforced. As figure 1 indicates, a clear and well communicated vision that specifies the risk appetite and strategy of the firm will inspire toward opportunities and protect management from possible threats. Boards need to oversee the executives of implementing the vision, risk scenarios and strategy.

Figure 1: Corporate Governance and Risk Management

Similarly, the Asian Crisis of 1997 highlighted the inadequacy of systems of governance at the state level as well as at the corporate level<sup>2</sup>. The Asian tigers' export-driven economies had benefited from America's consumer boom of the last years, so its manufacturers were bound to be hit hard by the sudden downward trend. This plunge in exports has been aggravated by the global credit crunch in 2008-2009, which made it harder for corporations to get trade finance. China is a case in itself since China's exports account for about 36% of GDP from which half contain imported components. Thus the impact of a fall in exports is partially offset if imports fall too. Pure value-added from exports therefore can be estimated to be a more modest 18% of GDP. Consumer spending in China is just over 35% of GDP, half the American share (The Economist, Jan 31, 2009; Roach, 2009), but the savings are considerable and assuming that private households can be stimulated to spend more, private consumption could become an important growth engine for the Asian region. Stephen Roach, the chairman of Morgan Stanley Asia, argues for a more balanced globalized world that needs to "move from one consumer to many"<sup>3</sup> (2009), as long as this consumption is more sensible and sustainable we like to add. Every government in the Asian region has cut interest rates and announced fiscal stimulus, and the Chinese public spending – especially to upgrade or expand their infrastructure - is impressive.

However, fiscal spending in the other Asian emerging countries after the 1997 crisis on the contrary resulted in significantly reduced government capital spending, especially in Thailand and Indonesia in which the public infrastructure is probably worse than a decade ago. That makes it enough room to introduce some sensible public spending. The less open economies of China, India and Indonesia may resist the current crisis slightly better with growth rates of 8%, 5% to 6% respectively. Taking into account the rising productivity, high savings to finance investment, low import barriers to speed up competition, one can assume that Asia might fare much better to overcome the current crisis than the debilitating crisis of 1997. Asia's room to increase local consumption could function as the engine for more growth.

On the supply side, structural reforms and better governance and risk management should enable corporations to become more globally competitive and to become less dependent on the protectionist pressure in the West. And psychologically, stimulated by an enormous emotion of hope for better (Moïse, 2009), Asian (especially Chinese) growth economies, may well undermine the current Western political and economy hegemony in the not too distant future.

However, one should not overlook the enormous challenges of the BRIIC countries. The Chinese president, Wen Jiabao, acknowledges that China faces serious challenges especially concerning their increasingly unbalanced, unstable, uncoordinated and unsustainable economy (Roach, 2009). China's but also the other BRIIC's economies will need some structural

transformation that enhances the sustainability of its economic growth while considering some environmental remediation and greener growth.

### *A NEW GEOPOLITICAL REALITY AND GLOBAL INTERDEPENDENCE*

The too optimistic perspective of Fukuyama's "End of History" has definitely not been materialized either. When the Cold War ended in 1989 with the fall of the Berlin Wall and Europe looked confidently into the future, while China was chastened and traumatized by Tiananmen, few would predict that the geopolitical power structure would change so dramatically over these two or three last decades. And geopolitics is all about influence and control. However, the US has become a nation of debtors at a dangerous level. Moreover, the "rise of the rest" (Zakaria, 2009) – best symbolized by the economic rise of China and its creditor's role vis-à-vis the USA – have undermined the superpower position of the USA. The rise of the rest is reflected in the enormous growth of Asian economies. This transition has also political, military and cultural consequences. The new powerhouses, Brazil, Russia, India and China (BRIC) dare to stand up against the West, the USA in particular. Adding the biggest Muslim country Indonesia to the this group of regional powers – constituting the increasingly powerful and vocal BRIIC-group – could possibly counterbalance the fledging Western hegemony. Global power, nonetheless, is above all incarnated in the dominance over ideas, agendas, and models (Zakaria, 2009; Nye, 2004). The result of the current crisis is that the liberal market capitalism of the USA and UK and the coordinated market economy in continental Europe and Japan now "competes" with state capitalism and "bamboo" capitalism in Russia and China respectively.

State capitalism in China and Russia, and [Keynesian] interventionism have gained prominence again in the aftermath of this severe global crisis. China and Russia are leading the way in the strategic deployment of state-owned firms and their example is followed by a number of other governments. Nonetheless free markets may not be the sole drivers of success and may have lost some of its previous shine but still remain the enablers to help to make the provision of products and services in the most efficient and effective countries. At this time of enormous uncertainty, more complex forms of cooperation are required with the inclusion of private corporations and consumers but also public and non-for-profit organizations. The US, however, remains the economic superpower, mainly because US companies are able to subtly align the economic paths of other countries with the US more effectively and efficiently than other main big geopolitical players (Shapiro, 2008). For example, the internet's software infrastructure – mainly US based for the time being – developed into a radically open and decentralized system,

creating opportunities, disseminating information without too much restriction, is enhancing the “soft power” of the US in the process.

The Asian newly founded might will need to be translated in sustainable policies that accommodate its new international position of reciprocal “power” and authority. The economic and political power in China (and other Asian countries) is based on the emotion of *hope* that contrasts with the emotion of *fear* in the West and of *resent*, anger and frustration in a number of Middle Eastern countries (Moïse, 2009). The BRIIC’s (or BICI; Brazil, India, China, Indonesia replacing Russia) new international position also implies some expected responsibility and accountability towards its neighbors and the international global community. In September 2008, Robert Zoellick, the President of the World Bank, called on China to become a “responsible stakeholder” in the international system. The Chinese elite treasures political “peace, friends and time” as one of the most important contributors to create an environment in which its 1.3 billion citizens can live comfortably in peace and harmony with its neighbors. We are convinced that good relations between the leaders of the multipolar power centers in the world, with the USA as *primus inter pares* as a fact of current socio-political life, are necessary to materialize rationally objective economic and political stability. Nonetheless, an American politics of engagement vis-à-vis China may need to be hedged by the military might of the US Navy in guarding and guaranteeing free trade sea routes from Asia to the USA and vice versa. George Kennan’s *containment policy* may still be relevant today.

Globalization and global unpredictability or uncertainty does not need to be the battleground of increased poverty, unethical greedy corporate behavior and ecological disasters but could become the fertile ground of reasonable peaceful co-existence and collaboration that might benefit all the participants of a *functioning core* of interdependent global members (Barnett, 2004). Within this functioning core as shown in figure 2, firms achieve a competitive edge through soft power which is only possible when the nation has the knowledge and technological capacity to keep innovating.

Figure 2: Globalization: Functioning Core versus Disconnected Gap

*Global connectivity*<sup>4</sup> benefits America and Europe economically by increasing its access to the world’s innovative goods and services while promoting its exports (Barnett, 2004). Such connectivity also significantly enhances the political collaboration and interdependency.

However, those at the center of power, having the authority to make decisions, should also engage in corresponding duties, i.e. being accountable and sharing responsibility for their actions. Moreover, when Western societies are confronted with global crises, it often leads to a return of psychological and economic protective measures where specific often biased interests (of a select few) trump values<sup>5</sup>. Protectionism in trade and economic fields may endanger the open global system the West has created at the end of World War II.

The global economic order is under scrutiny at the moment and the widespread confusion over what constitutes legitimate threats to international economic and political stability and order cannot be ignored, especially by those countries who feel left behind and have nothing to lose to react against a core of (mainly Western) interdependent countries. America, as the “default superpower” (Joffe quoted in Zakaria, 2009: XXVI), and its global trading and political partners will need some common action to overcome the current global crisis.

It seems that China believes in a “peaceful rise” that reflects a carefully thought-out consensus within the Chinese political elite and even society that emphasizes harmony and peaceful relations. Of all the five “legal” nuclear powers, China keeps its nuclear weapons in the least operationally stage without any first-strike intention. Moreover, the US spends more on defense than the next twenty-three largest military spending nations combined (Mahbubani, 2008: 105; Shapiro, 2008). It is also true, however, that without the global presence of the US armed force, the world order would currently be less orderly.

Our challenges have become so global that old nation-state boundaries have become too small to provide public goods or global solutions. How to address those issues? Only international cooperation will be able to address the global challenges. The well-know Earth Institute Director at Colombia University, Professor Jeffrey Sachs, believes that a sense of *legitimacy* and *global connectedness* could result in some form of galvanizing that may make people appreciate the interconnectedness of our global challenges<sup>6</sup>. Multinational companies will need to accept the “intervention” of some sort of state capitalism for the years to come.

The capitalist market has failed us or rather our well paid business leaders have not fulfilled their duties. It can be assumed that a more stable and peaceful world is underpinned by some rules-based order on a domestic, regional and global level<sup>7</sup>. Stability and a feeling of security are the assumed critical factors that provide stimulus to the economy. It is sensible to argue that on a corporate level, the quest for a more stable global order will require leaders to integrate environmental, social and governance principles (ESG) in what is here euphemistically labeled “responsible investments”<sup>8</sup>. Moreover, one could assume that – despite the increased

dangers of systemic risk – interconnectivity will increase productivity and thus ultimately the welfare of its (dis)connected citizens (cf. Figure 2).

The West – with only 12% of the total population attempting to steer international institutions towards a more peaceful world - needs to understand that the world will almost by necessity become more complex and to acknowledge that the Asian countries will play a more important role. It is obvious that China is emerging slowly but carefully as a global geopolitical player by making careful inroads into Latin America and Africa. Chinese low profile gradually positions itself to emerge as a great power. China’s decision to help ASEAN countries was based not merely on altruism but on *real politik*. Moreover, the governor of China’s Central Bank recently toyed the idea to consider the possibility of a new world reserve currency to replace the US dollar, with the understanding to “reset the obsolescent unipolar world economic order”.

Previously, America has been sensible to common values to solve problems. We may like to return to such an attitude. If one get rid oneself of ideological assumptions and presumptions, one can most likely find pragmatic solutions with an open mind to communicate with others, addressing those global challenges. As Deng Xiaoping famously stated it: “it does not matter whether a cat is black or white; if it catches mice, it is a good cat”. It is this unwavering pragmatism that has deeply influenced the political and economic policies in China.

### ***BETTER GOVERNANCE & ENHANCED RESPONSIBLE INVESTMENTS COUNTERING UNCERTAINTY***

It should be noted that fear in the West and resent in the Middle Eastern countries may be no match to the enormous emotional power of hope in most Asian countries (Moïse, 2009) that is sustained by an increasing economic and political feeling of power and influence. Moreover, dangers and crises can result in either some regret for wrong decisions and fear for the unknown and deep uncertainty or they can lead to new created opportunities (Cf Figure 1). At the moment, international monetary reform reducing systemic risk and currency fluctuations, and enhancing price stability and world trade remain the main priorities of the global superpowers or shall we hope to refer them as “super-partners”.

It seems that a number of international public and private organizations are out of sync with the present dramatically changed geological and economic situations of global interdependence. Many public and private organizations are still driven by national or strictly limited corporate interests that have a tendency to avoid to address transnational global

challenges because there is no supra-institution unlike a dysfunctional UN that forcefully could embrace challenges beyond national or corporate rooms. China is still focusing on developing its own economy providing its citizens the welfare securing peace and harmony, while not necessarily willing to take a global leadership role yet. India may be more cosmopolitan than Chinese leadership, but its economic size is small compared to China and the Western powers – merely USD 800 billion compared to USD 12.5 trillion for the USA, USD 13.3 trillion for EU, and USD 2.3 trillion for China according to World Bank figures in 2005 (before the recent financial meltdown). At the end of 2010, China’s GDP soared to USD 5.8 trillion, surpassing Japan’s USD 5.4 trillion becoming the world’s second largest economy after the USA’s GDP (14.8 trillion; Europe as a whole stands at USD 16.4 trillion at the end of 2010).

One could argue that the basic principles behind good public governance – democracy, rule of law & meritocracy, and social justice - and its contextualized “best practices” based on those principles can be seen as the cornerstone for a new geopolitical structure that emphasizes interconnectivity (Figure 3). *Corporate governance principles* both for public listed, private and state owned corporations are the best chance to harmonize the “rules of the international game”<sup>9</sup> to preserve international collaboration (Bainbridge 2008; Banks 2004; Clarke 2007; Dimma 2002; Markarian *et al* 2007; Roche 2005) and responsible corporate behavior while acknowledging the global connectivity and interdependence in the socio-economic sphere.

Figure 3: Corporate Governance within a socio-political global context

Specifically, a global corporate leader will need to take responsibility and being accountable for its actions by implementation those best governance practices (cf Figure 1). Such corporate leaders will steer firms to become “migrators” if not “pioneers” – as shown in figure 3 - and create wealth through innovative strategies (Kim & Mauborgne, 2005; Bennis *et al*, 2008; Davis *et al*, 2008), with hopefully some investments in more renewable energy, more ecological products, and improvement of health care.

My personal experience in Asia confirms that one cannot ignore the importance of personal *guanxi* and reputation of leadership. Nonetheless, in most ASEAN countries and other emerging economies, poor enforcement of disclosure laws and accounting standards stifle regulatory authorities unable to monitor banks and public companies for example (Randhawa,

2005). In emerging markets, majority and family ownership are quite common, disclosure levels are low, shareholders' rights are sometimes ignored, and judicial recourse is sometimes very uncertain. In those Asian cultures the lack of trust beyond extended family, collectivism and cultures of power distance based on hierarchical status elevate the importance of certain socially acceptable behaviors such as loyalty and close personal relationships in business. These specific cultural and organizational characteristics, important to sustain *social capital*, may turn into cronyism which selects and favors some "in-group members" based on relationships and loyalties, or can overemphasize relationships and loyalties that can result in corruptive behavior (Khatri *et al.*, 2003; Verhezen, 2008b & 2009; Kurzman, 2004 & 2007). Such cultural complexities may hinder and even undermine the development and implementation of the good corporate governance required for sustainable 'modernization' in a global interdependent world.

Where boundaries as result of globalization and internationalization seem to be fuzzier than ever the need for some multi-fiduciary responsibilities within and for a corporation may become recommendable. Adapting to a *multiple-principal-agent theory*, quite often referred to as the loosely defined stakeholder theorem (Freeman 1984), instead of a naïve belief in the single principal-agent theory (Fama *et al.* 1983; Jensen 1986 & 2002) and its exuberant laissez-faire model based on individual self-interest only will have more chance to embrace necessary changes to address the global challenges. Moreover, it seems that our old diplomatic or financial habits have great difficulties to adapt to the new global situation. Indeed, one should attempt to initiate multiple perspectives beyond the broad Washington consensus that evolved after WWI and WWII. The only way to spot threats and opportunities is to break out of a narrow way of perceiving certain realities.

*Corporate social responsibility* should be enacted through continuously integrating the objectives of the primary stakeholders, i.e. the shareholders' rights for a decent financial return on their investment, and the non-financial aspirations and objectives of other principal stakeholders such as upholding the highest form of integrity with respect to environmentally friendly input to make and deliver "green" and ethically sound wanted products and services for their customers. Secondly, addressing the global and this geopolitical challenges, corporations and governments alike should emphasize and act upon their responsibility to increase research and investment in sustainable energy, improved ecologically sound products and services, and cheaper and better health care services.

There are *no* "best" or optimal systems of governance<sup>10</sup>, but there are only *better* practices<sup>11</sup>. Indeed, it is acknowledged that a 'one size fits all' approach is unrealistic and often perceived as alien because experience has demonstrated that the Anglo-American capitalistic

structures cannot be automatically transplanted or imposed globally. Nonetheless, investors can only be attracted to buy foreign shares if *basic standards of corporate governance*<sup>12</sup> at an international level are being adhered to. Respect for widely accepted governance practices that focus on integrating economic, environmental and ethical (the “3E”s) values and principles (Elkington *et al* 2008; Emerson 2003; Mirvis *et al* 2006) as the overlapping consensus of the “playing framework of core connectivity” might reduce some risks in this new highly uncertain geopolitical reality. Call it corporate transformative sustainable value creation that embeds profit optimization and social corporate responsibility. Despite some aggressive tactics by the Chinese elite, their investments in R&D (among which greener and more sustainable products) are booming at about 1.7% of GDP or USD 103 billion – compared to 2.7% of GDP or USD 402 billion for the USA (Hout *et al* 2011) - which hopefully may bear some fruits in the near future.

No matter how powerful and technologically sophisticated the train, it is only as good as the track on which it runs and as the conductor who steers the train. The mortgage crisis has revealed that the regulatory and insurance institutions are like old tracks not suitable for the new challenges. Moral hazard can only decrease when institutional reform provides a stronger framework within which the real estate and financial markets can effectively operate (Shiller 2008). Such institutional reform does not equal more regulations; more likely it will require streamlining, adopting, and fine tuning the existing regulations. Moreover, the lack of corporate governance principles and too much greedy focus on quarterly bonuses has definitely aggravated the financial meltdown. Whether corporate governance - certainly reducing some risks - would have been able to prevent the crises altogether is more difficult to assess. But it can be argued that “Social Responsible Investment” is not just about positively or negatively screening the choice of preferred investment in particular corporations (by global investors) which claim to endorse ESG principles or the transparency of good corporate governance. The author believes that *corporate responsibility* is more about (1) aligning economic and ethical-ecological sustainability principles in all corporate activities; not just an add-on and about (2) directing attention and focus on resources where new opportunities exist to create sustainable value. Moreover, only collaboration at all levels in this new multipolar global context can achieve such corporate responsibility beyond national borders. Such integration of financial and non-financial objectives within corporations will hopefully result in more corporate responsible behavior worldwide.

## **CONCLUSION**

The current international strategic uncertainty is partially caused and to an extent aggravated by the financial crisis that has been caused by a lack of governance and prudent risk management, by corporate unsustainable and unethical herd behavior chasing the highest short term profit possible. The strategic uncertainty that brought the Western and the global capitalist system almost to its knees will reshuffle the geopolitical power centers, both on a *national* as well as on a *corporate* level.

Unless the new geopolitical *national* “super-partners” and their corporations will find ways to expand and enhance governance principles and implement internationally agreed rules (of the game) the world will face a very uncertain and likely violent future. Moreover, redirecting some of the corporate and governmental resources towards a more sustainable value creation will help to address global challenges. The great challenge for international leaders is to create a new geopolitical environment that stimulates effective global cooperation to achieve those more sustainable and ethical aspirations. Political and economic cooperation among the six increasingly connected “super-partners” (USA, Europe, Brazil, Russia, India, China and possibly Indonesia) and nudging – not necessarily rigidly regulating - globalization in the direction of best *governance practices* can reduce possible eruptive conflicting interests and enhance the functioning core of global interdependent participants. It also will need to enhance global responsible investments that address the urgent needs of this planet (around fair economic production and distribution, more sustainable energy production and consumption, climate change management, reduction of criminality among others) while acknowledging the human driver to increase (economic) wealth and (socio-political) welfare and wellbeing.

A new balance of relationships between the main national powers of this increasingly multipolar geopolitical context on the one hand, and the growing competitive and interdependent relationships of “global” corporations on the other hand will determine how we can reduce political and economic uncertainty.

The recent financial crises seem to be caused by the antipode of transparency that underpins governance. Global attention has increasingly turned towards the question of good *corporate* governance in both developed and emerging markets. A common factor determining the success of a corporate governance structure is the extent to which it is transparent to market or regulatory forces. The focus will increasingly be on corporations which have amassed enormous power by their mere global reach and size, and heavily supported by governments in the aftermath of this crisis. Global corporations play an increasingly important role in the economic and also socio-psychological life of citizens. By applying those governance principles, one estimate that the strategic uncertainty could be significantly reduced and that more responsible

investments could be pursued. Not just by integrating and aligning economic objectives with ethical and ecological values in each of the corporate activities, but also by emphasizing sensible and responsible innovative investments in sustainable energy, more ecologically sound products and services and investments in promising high tech developments in health care, instead of stimulating an unsustainable consumption binge in the West (especially the USA). In pursuing such an alignment and emphasizing the importance of responsible investments that create transformative sustainable value, corporate but also political leaders may rise to the occasion and start to address those urgent global challenges rather sooner than later. The new geopolitical reality needs a serious and sensible strategy that endorses sustainable and responsible corporate investments, not mere tactics of crisis containment.

**Appendix**

Figure 1: Corporate Governance & Risk Management

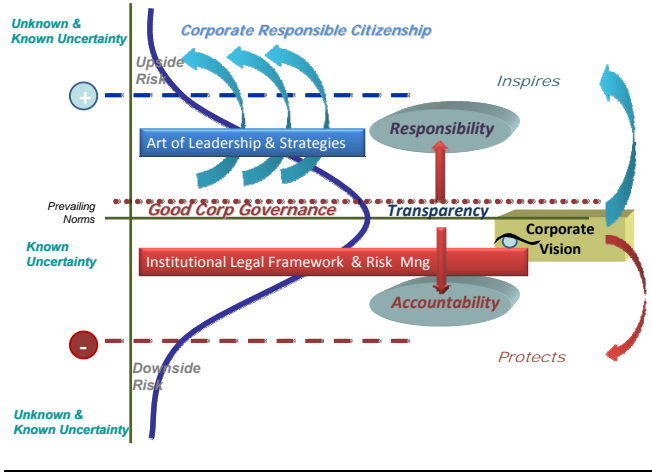


Figure 2: Globalization: Functioning Core versus Disconnected Gap

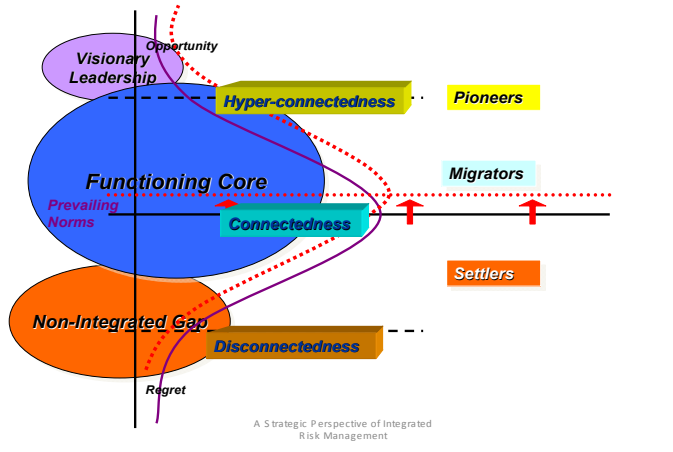
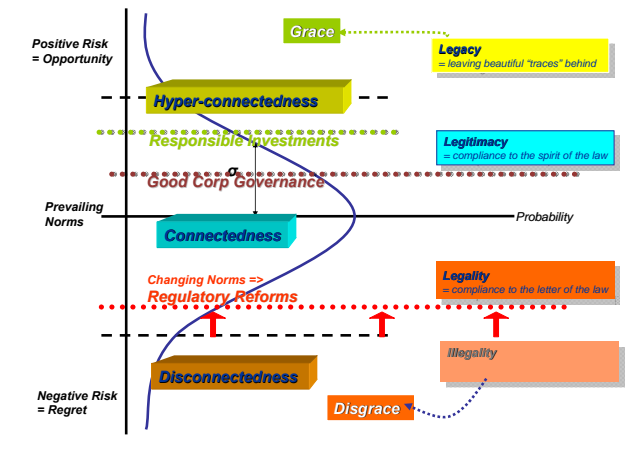


Figure 3: Corporate Governance within a Political Global Context



---

## **Notes:**

<sup>1</sup> This brief analysis of the Global Mortgage crisis is based on a Lecture “Causes and Consequences of the Current Financial Turbulence” by Professor Raghuram Rajan, Professor Finance of the Graduate Booth School of Business in Chicago and his recent book *Fault Lines*, at the University of Melbourne on 5 November 2008, and a Lecture “Could Good Governance have prevented the current global Mortgage Meltdown?” by Peter Verhezen at the University of Fudan on 17 October 2008. The analysis has been influenced as well by Shiller’s analysis (2008). The analysis is meant to be indicative rather than exhaustive. Excessive credit was made possible through “dumb money” where investors were looking for yield in high rated securities, hind insight wrongly rated as non-risky by the international rating agencies. Since investment banks and the securities packaging companies started to sell more and more of this “toxic waste” without recognizing the potential risks, fed by cheap credit that lured sub prime borrowers to take advantage of the free lunch available, a lack of oversight made the meltdown, hind insight once more, inevitable. Competitive pressures at the top of those banks and a well-known herd-effect pushed them to purchase and keep those securitized loans on their own books instead of further mitigating the risk. Moreover, one can argue that there was a lack of full internalization of those risks in the banks buying and selling those CMOs. Even if risks were expressed by the respective risk departments, they became less efficient as the cycle of buying and selling those securitized loans was progressing and in fact at the height of the danger, risk management was at it weakest. There was a total breakdown of applying the appropriate governance principles because more leverage was taken on the balance sheet without providing any cautionary cushion. In addition, the short term credit was considerably cheaper than long term capital with the idea that one could keep the borrower on a short leash. No one was building reserves, one paid out the cash to their top executives as bonuses for the short term profits generated through this apparently profitable securitization process till the presumably golden eggs broke in August 2008. It seems that the institutions were not prepared to support the increasingly complex financial securitization process and the related mortgages which were not that risk-free as wrongly presumed. Moral hazards, and the failure to anticipate quite obvious risks aggravated by “irrational exuberance” at the prospects for profits partially explains the bubble (Shiller 2008). Finally, the excessive funding for mortgage loans paradoxically lead to illiquidity and insolvency as those loans unexpectedly started to mount, securitization became increasingly more complex (un)consciously hiding any risk. Pricing of these mortgages-backed securities became harder by the day. The myth that there was plenty of money available was finally unravelled in August 2008 and panic erupted when Lehman Brothers were not bailed out by the USA government. The rest of this mortgage story is history in process now.

<sup>2</sup> During that crisis, the five most heavily affected countries - Indonesia, South Korea, Thailand, Malaysia and the Philippines - lost more than USD 600 billion in market capitalization or around 60% of their combined pre-crisis gross domestic product. Total private capital flows to emerging markets are estimated to have fallen in 2002 to levels last seen in the early 1990s (Cornelius 2003). The predominant relationship-based style of corporate governance in Asia can be seen as one of the fundamental drivers of concentration of ownership, accompanied by a lack of transparency has turned out to be one of the causes of the region’s economic crisis (Millar *et al* 2005; Pye 1997). However, the Asian Crisis has brought considerable progress in more transparent corporate governance mechanisms and more comprehensive and internationally converging accounting standards in the respective inflicted countries. In the ASEAN banking sector for example, a substantially improved transparency and decision to adopt the International Basel II standards , allowed for a drastic change from close and intrusive regulation to a risk-based supervisory regime in most of those ASEAN countries (Rhandawa 2005). Such amelioration may prepare them for a more robust and sustainable growth in the future. However, early 2009, the GDP probably fell by an average of 15% in Hong Kong, Singapore, South Korea, and Taiwan, the four traditional Asian tigers. Stock prices on the respective Asian exchanges have plunged by almost as much as during the Asian financial crisis a decade ago, though they all recently regained some share.

<sup>3</sup> See Roach (2009). The US consumption reached an astonishing 72 percent of GDP in 2007 – a full 5 percent point above the 67 percent that prevailed from 1975 till 2000 – which can be easily interpreted as a record in modern economic history. This overextended demand side is met by an unwavering but nonetheless unbalanced export-led growth in developing Asia where exports in China for instance jumped from 20 percent to 40 percent of their GDP in less than 2 decades. Although the US now accounts for about 20 percent of total Chinese exports, with Europe and Japan taking in another 30 percent, the remaining bulk

---

is shown in the form of a sharply growing intraregional Asian trade. However, according to Roach, the insufficient internal private consumption and the overreliance on exports as a major and increasing source of growth contains inherent imbalances for China and Asia themselves. The Chinese consumption as share of GDP fell to a record low of around 35 percent in 2007. “An increasingly integrated Asian economy also discovered the new synergies of a China-centric supply chain. Moreover, commodity producers around the world – especially, in Australia, Russia, Canada, and even Brazil – drew great sustenance from a resource-intensive, export-led Chinese economy. [...] America’s consumption binge – accompanied by record debt burdens, zero saving rates, and a multiplicity of bubbles in asset markets (equity and property) and credit. It was also true of Asia’s export boom, which spawned ever-rising current account surpluses, enormous reservoirs of foreign exchange reserves, and a megabubble in commodity markets” (Roach, 2009: 84), creating a fundamentally unbalanced global economy.

<sup>4</sup> See Barnett (2004). Global connectivity refers to the system or community of states, individual nation-states (both good and bad) and individuals operating both within societies and across them. Such a connectivity is expressed in nations joining a core, which expects their societies to play by the rules of the game (such as transparency and accountability). Nations, firms and individuals function within globalization whereby this functioning is based on the harmonization of internal rules with rule of democracy, rule of law and free markets.

<sup>5</sup> Mahbubani (2008). For example, the EU and US spend an average of USD 67 billion and USD 20 billion respectively on agricultural subsidies in 2005.

<sup>6</sup> See Sachs (2008): 7. “The paradox of a unified global economy and divided global society poses the single greatest threat to the planet because it makes impossible the cooperation needed to address the remaining challenges. A clash of civilizations [...] would undo all that humanity has built and would cast a shadow for generations to come”. Since 1914 (WW I) and 1945 (WW II), we have never been so close to another disaster, this time “natural” in its nature. A natural disaster as result of ecological imbalances, caused by human behavior, may lead to global instability. The real benefits of introducing free market economics within specific constraints is the impact it has on reducing poverty. However, ecology and ethics should not become the collateral damage of such free initiative and should be contained by reasonable regulations to internalize those unwanted externalities as much as possible and make organizations and individuals fully accountable.

<sup>7</sup> Nonetheless, experience has proven that the Western notion of the rule of law, in which all human beings are to be treated equally under the law and all citizens subject to the same impartial laws, as envisaged by Hobbes’s Leviathan and Rousseau’s General Will, goes against the grain in Asian minds. The question remains whether the engrained guanxi relationships based on personal connections will veer towards a system of meritocracy and legal impartiality or rule of law, or whether a more hybrid form of relationship-based & rules-based governance will prevail (Verhezen, 2008). The famous symbol of a blindfolded figure holding the scales of justice captures this deep aspiration to create a just society in which the law applies equally to all acknowledging the dignity of each individual. The pursuit of such form of justice should be regarded as a very high ethical aspiration, though the devil sometimes lies in the content of the law or in the implementation of the law (Sen, 2009) in which the tension between the predominance of loyalty of community members over individual rights is sometimes misinterpreted or misunderstood in the West. Nonetheless, emphasizing the particular interests of certain communities or powerful institutional interest groups over others may result in patronage relationships or even nepotism and outright corruption. The aim is to find a subtle balance between the “impersonal” and impartial rules of justice (prevailing in the Western tradition) and the more “personal” loyal relationships of the ruler and ruled citizens that are so predominant in Asian cultures. Evidence, however, suggests that Western approbation or sanctions are often based on Western interests and not merely on their well-thought Western values or impartial rules of justice. Despite the obvious economic and political interests any political elite tries to preserve, the West often sees the world in black and white terms, distinguishing itself from either the evil empire or the “axis of evil”, whereas Asian societies are able to see the ambiguous world in many different colors. It is telling for example that the Western quite abstract notion of and search for “truth” is often translated in the less abstract notion of “authenticity” in an Asian context that pragmatically looks for ways (out) that work and function in the community.

<sup>8</sup> Based on a literature review and on the a research for the European Commission by Steurer, R., S. Margula & A. Martinuzzi (April 2008), *Analysis of National Policies on CSR* ([www.sustainability.eu/csr-policies](http://www.sustainability.eu/csr-policies)), research developed by Clark, D., (2006), *The rough guide to Ethical Living*, London, Rough; and

---

research by Eurosif and the Economist Intelligence Unit (March 2009). Some of this research is already implemented by Goldman Sachs' ESG investment criteria. One could argue that ESG – i.e. Ecological, Social and Governance – aims at to better align investors with society as a whole, as they are expressed in the **Principles of Responsible Investment** (PRI of UN). The main 6 principles are: (1) one will incorporate ESG issues into investors' analysis and decision-making processes. Some ESG issue examples are biodiversity risk, slave labour, investment in weak-and conflict prone states, shareholders rights, climate change matters etc; (2) one will be active and incorporate ESG issues into an ownership policies and practices; (3) one will seek appropriate disclosure in ESG issues by the entities in which one invests; (4) one will work together to enhance the implementation of the Principles within the investment industry; (5) one will work together to enhance one's effectiveness in implementing Principles; and (6) one will report on one's activities and progress towards implementing the principles ([www.unpri.org](http://www.unpri.org), 2008). ESG is closely related to SRI (Social Responsible Investment) that is part of a broader concept of Corporate Social Responsibility (CSR) and sustainable development (SD). While CSR is widely regarded as a voluntary business contribution to the societal guiding model of sustainable development, SRI and ESG can be regarded as an application of CSR principles in investment decisions. SRI is the practice of making investment decisions that aligns financial and non-financial objectives.

<sup>9</sup> We like to note that the international institutions will also need to adapt to the new situation. The common thread is not market returns but rather commitment to a common goal that somehow implies that businesses promote broad social objectives that are consistent with core business principles, values and practices. Sustainable business goals and strategies attempt to align profitability and economic earnings to socio-ethical and ecological objectives that underwrite those common goals. The global interdependence in financial and security terms have become obvious after 9/11 and reconfirmed during the current economic crisis. The world has shrunk in a sense that the ecological challenges have shown us that nobody can escape their responsibility to pursue real sustainability and to avoid an increasingly dangerous lurking ecological disaster. However, if global governance – not a global government or a super-regulator – may incorporate the possible answer to the current global challenges, it will to develop both institutions and rules to manage those challenges. Democracy implies one citizen, one vote, or one nation, one vote. In some instances, one rightfully could weight those democratic measuring in order to take into account mere demography (Luxembourg may not carry the same economic weight as China for instance). Paradoxically, “direct global democracy” – where majority overrules minorities may not be the best solution. However, democracies carry a greater moral legitimacy than non-democratic societies. Currently, the UNSC may take legal decisions to rule the world, but they face a crisis of (moral) legitimacy. It is well documented how the USA for example uses its overwhelming hard (both economic and military) power to reach bilateral deals with other permanent or temporary UNSC members at the expense of global interests. Moreover, American power often trumps international law if it does not provide them enough leeway to preserve US interests. Parallel to corporate governance, we suggest that the board (i.e. UN Security Council) representing the shareholders and stakeholders (i.e. UN General Assembly), selects a top executive management (UN Executive Committee) that is accountable to the Board. Like in corporate governance, board members are chosen based on merit or “knowledge” and power, but their time should be limited or to be extended under strict conditions. In other words, it would end the perpetual rule of the five permanent members, which is quite unlikely at this point in time. Especially the European three member states (England, France and Russia) might object such a change. However, new Asian powers like Japan and India, and Germany for example should be given veto rights to reflect their economic weight in the international system. Adapting the corporate governance principles of meritocracy, one should select heads of relevant global institutions according to their merit in a clear and transparent manner, not based on nationality as it stands now. At this point in time, none of the permanent UNSC members are really accountable for their actions and thus undermined its own legitimacy. Similarly, the IMF and the World Bank are losing their legitimate basis under the current crisis, unless more power will be given to China and the other countries-regions that support to bail out the USA and to a lesser degree Europe.

<sup>10</sup> See Markarian (2007): 298. The main issues regarding good corporate governance concern that (1) a majority of non-executive board members have to be independent and perceived as professional while the board itself should be characterized by diversity; (2) several committees should be established within the board (i.e. remuneration, auditing, nomination); (3) remuneration for executives should be decided only by non-executive directors; (4) the majority of the audit committee has to be independent and non-executive; (5) there is a preference of a separation of chairman and CEO function; (6) it has been suggested that there

---

is a maximum duration for non-executive directors who should be evaluated on a regular basis, (7) attention should be given to social and environmental issues.

<sup>11</sup> We here refer to the very useful and well-organized criteria used by CalPERS who manages more than USD 200 billion to invest in a variety of international firms.

The first main factor investing in a firm is related to the **country risk** in which that firm is operational: 1. *Political Stability* (a. Civil liberties; b. Independent judiciary and legal protection; c. Political risk); 2. *Transparency* (a. Freedom of press; b. Accounting standards; c. Monetary and fiscal transparency; d. Stock exchange listing requirements); 3. *Productive Labor Practices* (a. ILO ratification; b. The quality of enabling legislation to explicitly protect or prohibit the rights described in the ILO Convention; c. The institutional capacity of governmental administrative bodies to enforce labor law at the national, regional and local level; d. Effectiveness of monitoring and enforcement of laws in the ILO Convention areas).

A second criteria to establish an investment will require an in-debt analysis of the **market risk**: 1. *Market Liquidity and Volatility* (a. Market capitalization, the overall size of the country's stock market; b. Change in market capitalization, the growth of the country's stock market over the last five years; c. Average monthly trading volume relative to the size of the market; d. Growth in listed companies over the last five years; e. Market volatility as measured by standard deviation over the last five years attributable to both currency volatility and local market volatility; d. Return/risk ratio in each market); 2. *Market Regulation / Legal system / Investor Protection* (a. Adequacy of financial regulation; b. Bankruptcy and creditors' rights; c. Shareholders' rights); 3. *Capital Market Openness* (a. Trade policy, measuring the degree to which there is oppressive government interference to free trade; b. Foreign investment, measuring governmental barriers to the free flow of capital from foreign sources including unequal treatment of foreigners and locals under the law; c. Banking and finance, measuring government control of banks and financial institutions and allocation of credit and the degree of freedom that financial institutions have to offer all types of financial services, securities, and insurance policies; d. Stock market foreign ownership restrictions; e. Settlement Proficiency = the country's trading and settlement practices to determine the degree of automation and the success of the market settling transactions in a timely, efficient manner; f. Transaction Costs = the costs associated with trading in a particular market and includes stamp taxes and duties, amount of dividend and income taxed, and capital gains taxes).

Finally, one will need to analyze the **specific risk factors of a firm** which are often related to their specific organizational corporate governance principles or lack of them and the quality of the top management who is supposedly developing strategies and economic fundamentals which are sensible for the creation of long-term value of the firm.

<sup>11</sup> See Mallin, 2002; Huse, 2007; Brown & Caylor, 2006; Clarke, 2007; Solomon & Solomon, 2004; Puffer et al, 2003; Banks, 2004; Mobius 2003. It is worth asking what good governance principles and "best" practices are. Good corporate governance refers to the exercise of power and responsibility for corporate entities to become distinctive and differentiating "pioneers" and examples for others. Corporate Governance can be re-defined as the interactions between coalitions of internal and external actors and the board members in directing and steering a corporation for value creation. It fosters the competitive performance required to achieve the corporation's primary objective of profitability. Moreover, good corporate governance's concern for capital providers or investors is related to assessing risk in investments in a firm's resources, to evaluating capital allocations to provide reasonable returns and to monitoring how capital is managed over time. One of the main objectives of corporate governance is to provide reliable information about the firm through transparency and disclosure to all shareholders. Indeed, we can safely assume that good corporate governance principles refer to and are concretely translated into an (informal) obligation of care and formal fiduciary duty of officers and directors that accommodate the shareholder value. The former refers to an attitude of responsibility towards all shareholders and stakeholders embedded in informal social capital structures affecting the company; the latter to a legal fiduciary contract that prevails in corporate law in most developed countries. The Delaware Supreme Court (Delaware Corporate Litigation Reporter, 2002) stated that loyalty "as a public policy, existing through the years, and derived from a profound knowledge of human characteristics and motives, has established a rule that demands of corporate officers and directors, preemptorily or inexorably, the most scrupulous observance of his duty". In fact, one can assume that there shall no conflict between duty and self-interest according to this ruling. In other words, dramatic changes in cultures of information require access about and from centers of power and their accountability leading to the "right to know" and expanding the "duty for disclose".

---

## **References:**

- Anderson, Chris, (2007), *The Long Tail. How endless choice is creating unlimited demand*, London, The Random House
- Bainbridge, S.M., (2008), *The New Corporate Governance in Theory and Practice*, Oxford, Oxford University Press
- Banks, Erik, (2004), *Corporate Governance. Financial Responsibility, Controls and Ethics*, Hampshire, Palgrave MacMillan,
- Barnett, T.P.M., (2004), *The Pentagon's New Map. War and Peace in the Twenty-first Century*, New York, Berkley Books
- Bennis, W.; Goleman, D. & J. O'Toole, (2008), *Transparency. How Leaders Create a Culture of Candor*, San Fransisco, Jossey-Bass
- Brown, L.D. & M. Caylor, (2006), "Corporate Governance and Firm Valuation", *Journal of Accounting and Public Policy*, 25: 409-434
- Buchholz R.A. & S.B. Rosenthal, (2005), "The spirit of entrepreneurship and the qualities of moral decision making: A unifying framework", *Journal of Business Ethics*, 60: 307-315.
- Clarke, T., (2007), *International Corporate Governance*, London, Routledge
- Cornelius, P.K. & B. Kogut, (2003), *Corporate Governance and Capital Flows in a Global Economy*, New York, Oxford University Press
- Davis, S.; Lukomnik, J. & D. Pitt-Watson, (2006), *The New Capitalists. How Citizen Investors are Reshaping the Corporate Agenda*, Boston MA, Harvard Business School Press
- Dimma, W., (2002), *Excellence in the Boardroom. Best Practices in Corporate Directorship*, Ontario, Wiley & Sons Canada
- Elkington, J. & P. Hartigan, (2008), *The Power of Unreasonable People. How Social Entrepreneurs Create Markets That Change the World*, Cambridge MA, Harvard Business Press
- Emerson, J., (2003), "The Blended Value Proposition: Integrating Social and Financial Returns", *California Management Review*, Vol.45, No.4: 35-51
- Esty, D.C. & A.S. Winston, (2009), *Green to Gold. How smart companies use environmental strategy to innovate, creative value, and build competitive advantage*, New Jersey, John Wiley & Sons
- Fama, E. & M. Jensen, (1983), "Separation of ownership and control", *Journal of Law and Economics*, 26: 310-325
- Freeman, R.E., (1984), "The Politics of Stakeholder Theory: Some Future Directions", *Business Ethics Quarterly*, Vol.4: 409-422
- Henisz, W.J. & B.A. Zelner,(2010), "The Hidden Risks in Emerging Markets", *Harvard Business Review*, April, pp. 88-95
- Hillman, A.J.; Cannella, A.A. & R.L. Paetzold, (2000), "The Resource-Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change". *Journal for Management Studies*. March, 37(2): 235-255

- 
- Hout, T.M. & P. Ghemawat, (2011), "China vs the World. Whose Technology is it?", *Harvard Business Review*, Jan-Febr, pp.95-103
- Hu, H.; Verhezen, P & M. Tan, (2009), "Foreign Strategic Investors and Corporate Governance in China", Unpublished manuscript-Working Paper University of Melbourne
- Hughes, O. E. & D. O'Neill, (2008), *Business, Government and Globalization*, New York, Palgrave Macmillan
- Huse, M., (2005), "Corporate Governance: Understanding Important Contingencies", *Corporate Ownership & Control*, Vol. 2(4): 41-50
- Huse, M., (2007), *Boards, Governance and Value Creation*, Cambridge; New York, Cambridge University Press
- Jensen, M. & W.H. Meckling, (1976), "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure", *Journal of Financial Economics*, and reprinted in in Clarke, Th. (Ed), 2004, *Theories of Corporate Governance. The Philosophical Foundations of Corporate Governance*, London, Routledge, pp.58-63
- Jensen, M., (1986), "Agency cost of free cash flow, corporate finance, and takeovers", *American Economic Review*, 76: 323-329
- Jensen, M., (2002), "Value Maximization, Stakeholder Theory, and the Corporate Objective Function", *Business Ethics Quarterly*, 12(2): 235-256
- Kahler, M. & D.A. Lake (Eds), (2003), *Governance in a Global Economy. Political Authority in Transition*, New Jersey; Oxford, Princeton University Press
- Khatri, N; Johnson, J.P. & Z.U. Ahmed, (2003). "A Two-Stage Model of Cronyism in Organizations: A Cultural View of Governance", in Kidd, J.B. & F-J. Richter (Eds), *Corruption and Governance in Asia*, London, Palgrave MacMillan, pp.61-85
- Kim, W.C. & R. Mauborgne, (2005), *Blue Ocean Strategy. How to create uncontested market space and make the competition irrelevant*, Boston MA, Harvard Business School Press
- Korten, D.C., (2009), *Agenda for a New Economy. From Phantom Wealth to Real Wealth*, San Francisco, Berrett Koehler Publishing
- Kurtzman, J.; Yago, G. & T. Phumiwasana, (2004), "The Global Cost of Opacity", *MIT Sloan Management Review*, Fall, pp.38-44
- Kurtzman, J., G.Yago, (2007), *Global Edge. Using the Opacity Index to manage the risks of Cross-border Business*, Boston MA, Harvard Business School Press
- Lin, X. & C.Lu Wang, 2008, "Enforcement and Performance: the role of ownership, legalism and trust in international joint ventures", *Journal of World Business*, Vol. 43: 340-351
- Luo, Y., 2003, "Industrial Dynamics and Managerial Networking in an Emerging Market: the case of China", *Strategic Management Journal*, Vol. 24: 13315-1327
- Luo, Y., 2007, "From foreign investors to strategic insiders: shifting parameters, prescriptions and paradigms for MNCs in China", *Journal of World Business*, Vol. 42: 14-34

- 
- Mahbubani, K., (2008), *The New Asian Hemisphere. The irresistible shift of global power to the East*, New York, PublicAffairs Books
- Markarian, G.; Parbonetti, A. & G.J. Previts, (2007), "The Convergence of Disclosure and Governance Practices in the World's Largest Firms", *Corporate Governance*, Vol. 15(2): 294-310
- Millar, C.CJM; Eldomiaty, T.I., Choi, C.J. & B. Hilton, (2005), "Corporate Governance and Institutional Transparency in Emerging Markets", *Journal of Business Ethics*, 59: 163-174
- Mirvis, P. & B. Googins, (2006), "Stages of Corporate Citizenship", *California Management Review*, Vol. 48 (2): 104-124
- Mobius, M., (2003), "Corporate Governance", in Cornelius, P.K. & B. Kogut, *Corporate Governance and Capital Flows in a Global Economy*, New York, Oxford University Press, pp.401-412
- Moïse, D., (2009), *De Geopolitiek van Emotie. Hoe culturen van angst, vernedering and hoop de wereld veranderen (The Geopolitics of Emotions)*, Amsterdam, Nieuw Amsterdam Uitgevers
- Neoh, A., (2003), "Corporate Governance in Mainland China", in Cornelius, P.K. & B. Kogut, *Corporate Governance and Capital Flows in a Global Economy*, New York, Oxford University Press, pp.431-442
- Nye, J.S. Jr., (2004), *Soft Power. The means to success in World Politics*, New York, Public Affairs
- Ocampo, J.A. & J.E. Stiglitz (Eds), (2008), *Capital Markets Liberalization and Development*, Oxford UK, Oxford University Press
- Paine, L.S., 2010, "The China Rules", *Harvard Business Review*, June, pp.103-108
- Park, S. Ho & Y. Luo, 2001, "Guanxi and Organizational Dynamics: Organizational Networking in Chinese Firms", *Strategic Management Journal*, Vol. 22: 455-477
- Peng, M. W. (2003). "Institutional transitions and strategic choices", *Academy of Management Review*, 28(2): 275-296.
- Peng, Mike W. & Jessie Qi Zhou, (2005), "How Network Strategies and Institutional Transitions evolve in Asia", *Asia Pacific Journal of Management*, 22: 321-336
- Pfeffer, J. ,(1972), "Size and Composition of Corporate Boards of Directors: the Organization and its Environment", *Administrative Science Quarterly*, 17: 218-229.
- Pfeffer, J. and G. R. Salancik (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York, Harper and Row.
- Pye, L.W., (1997), "Asian Values: from Dynamos to Dominoes?", in Harrison, L. & S. Huntington (Eds), *Culture Matters. How Values Shape Human Progress*, New York, Basic Books, pp.244-255
- Porritt, J., (2005), *Capitalism as if the World Matters*, London, Earthscan
- Porter, M.E. & Cl. van der Linde, (1998), "Green and Competitive. Ending the stalemate", in Porter, M.E., *On Competition*, MA Boston, Harvard Business Press, pp.351-375
- Porter, M.E. & M. Kramer, (2006), "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility", *Harvard Business Review*, Boston, pp.78-93

- 
- Puffer, S.M. & D. J. McCarthy, (2003), "The Emergence of Corporate Governance in Russia", *Journal of World Business*, 38: 284-298
- Rajan, R.G., (2010), *Fault Lines. How hidden Fractures still threaten the World Economy*, New Jersey, Princeton University Press
- Ramo, J. Cooper, (2009), *The Age of the Unthinkable. Why the new world disorder constantly surprises us and what to do about it*, London, Little Brown
- Randhawa, D.S., (2005), "Corporate Reforms in the Banking Sector in Southeast Asia: Economics and Institutional Imperatives, in Ho, K.L. (Ed), Chapter 4, *Reforming Corporate Governance in Southeast Asia. Economics, Politics and Regulations*, Singapore, ISEAS Publications, pp.51-82
- Roach, S., (2009), *The Next Asia. Opportunities and Challenges for a new globalization*, New Jersey, John Wiley & Sons
- Roche J., (2005), *Corporate governance in Asia*. London. Routledge
- Rubin, Jeff, 2009, *Why your world is about to get a while lot smaller. Oil and the End of Globalization*, New York, Random House
- Sachs, J. (2005), *The End of Poverty. How we can make it happen in our lifetime*, London, Penguin
- Sachs, J., (2008), *Common Wealth. Economics for a Crowded Planet*, London, Penguin – Allen Lane
- Sen, A., (2009), *The Idea of Justice*, New York, Penguin
- Shapiro, R.J., (2008), *Futurecast. How superpowers, populations, and globalization will change your world by year 2020*, New York, St Martin's Press
- Shiller, Robert, (2008), *The Subprime Solution. How Today's Global Financial Crisis Happened, and What to Do about it*, Princeton; Oxford, Princeton University Press
- Sirkin, H.L.; Hemerling, J.W. & A.K. Bhattacharya, (2008), *Globality. Competing with everyone from everywhere for everything*, London, Headline Publishing
- Smith, D., (2008), *The Dragon and the Elephant. China, India and the New World Order*, London, Profile Books
- Soros, G., (2002), *On Globalization*, New York, Public Affairs
- Soros, G., (2008), *The New Paradigm for Financial Markets. The Credit Crisis of 2008 and What it Means*, New York, Public Affairs Publishing
- Starobin, P., (2009), *Five Roads to the Future. Power in the next global age*, London, Penguin Books
- Stiglitz, J.E. & P.-E. Muet (Eds), (2001), *Governance, Equity, and Global Markets. The Annual Bank Conference on Development Economics – Europe*, Oxford UK, Oxford University Press
- Stiglitz, J.E., (2002), *Globalization and Its Discontents*, London, The Allen Lane Penguin Books
- Tay, S. Sc., (2010), *Asia Alone. The dangerous post-crisis divide from America*, Singapore, John Wiley & Sons
- Tse, E., (2010), "Is it too late to enter China?", *Harvard Business Review*, April, pp. 96-101

---

Verhezen, P., (2008), “Guanxi: Networks or Nepotism?”, in Zsolnai, L. (Ed), *Europe-Asia Dialogue on Business Spirituality*, Antwerp; Apeldoorn, Garant, pp.89-106

Verhezen, P., (2009), *Gifts, Corruption and Philanthropy. The Ambiguity of gift practices in business*, Oxford, Peter Lang

Verhezen, P. & P.V. Morse, (2009), “Common Governance Principles?”, *Journal of International Business Ethics*, August, 2(2)

Verhezen, P. & P.V. Morse, 2010, “Fear, Regret and Transparency. Corporate Governance embracing disclosure and integrity”, WorldBank-NACC Publication, Bangkok, October

Williamson, P.J., (2004), *Winning in Asia. Strategies for a New Millenium*, Cambridge MA, Harvard Business School Press

Zakaria, F., (2008), *The Post-American World*, New York, W.N. Norton & Company

Zattoni, A. & F. Cuomo, (2008), “Why adopt Codes of Good Governance? A Comparison of Institutional and Efficiency Perspectives”, *Corporate Governance*, January, Vol 16 (1): 1-15

### **About the author**

**Peter Verhezen** is an Adjunct Professor in the area of Management Decision Making at the *Vlerick Leuven Gent Management School* (Belgium), a Visiting Associate Professor in the field of International Governance at the *University of Melbourne* (Australia), and a Fellow at the Ash Institute for Asian Studies and Governance at the *Harvard Kennedy School* (USA). For about 25 years, he used to work as an international management consultant, among which IBM-Cimad, Swift, Brookshire Hotels International, IBRA (Ministry of Finance of Indonesia) and a variety of corporations and banks in Southeast Asia. As the Principal of *Verhezen & Associates Ltd* he currently advises companies on Risk Management, Strategies and Governance, mainly in Asia and Australia. He regularly publishes around governance and business ethics in international journals and is a regular speaker at international conferences. Peter, a Belgian citizen, received his Master’s in Applied Economics from Antwerp University (Belgium), his MBA from Leuven-Chicago Business School in association with the Chicago Business School, and his Master’s and PhD in Philosophy from the University of Leuven (Belgium). His current interests are Governance, Business Ethics, Creating Sustainable Value and Integrated Risk Strategies in organizations.

[peter@verhezen.net](mailto:peter@verhezen.net) & [peter.verhezen@vlerick.com](mailto:peter.verhezen@vlerick.com) & [verhezen@unimelb.edu.au](mailto:verhezen@unimelb.edu.au)