TOWARDS ASEAN BANK GOVERNANCE COHERENCE:

Theories of Convergence in Corporate Governance

By

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Abstract

The ASEAN Banking Integration program aims to enable banks to operate freely and receive equal treatment as local banks operating across ASEAN. However, due to the lack of banking regulations, such as corporate governance guidelines, banking integration is limited to reciprocal bilateral agreements. This research identifies the gap in bank corporate governance rules across ASEAN based on the Basel Committee on Banking Supervision's (BCBS) Corporate Governance Principles for Banks, and assessed the value of theories of convergence in corporate governance to achieve increased coherency. An original contribution of the study is its development of a single standard indices of bank corporate governance for ASEAN. Academically, this study contributes to knowledge by contributing original research into the corporate governance of ASEAN banks and validating convergence theories in corporate governance in the ASEAN context. Also, the study results provided policy and practical advice for ABIF workgroups, regulators at the national level, and banks in approaching a single standard of bank corporate governance. A single rulebook containing bank regulations applicable to all banks is the key to achieving ASEAN's goal of an integrated financial and banking system across the region.

This research is an exploratory project characterized by a qualitative study and case study methodology. The first section of the study is based on a methodology from previous studies "Law and Finance" (LaPorta, Silanes & Shleifer 1998) and "Corporate Governance in ASEAN Financial Corporations - Illusion or Reality" (Chuanrommanee & Swierczek 2007) which involved content analysis and indices development. The content of documents (laws, regulations, guidelines, and notifications) of each country were scrutinized and interpreted through a systematic classification process according to the content analysis approach, and certain patterns of bank governance rules across ASEAN countries were identified in respect to the developed indices. It is noted that the indices are based on the "BCBS's Corporate Governance principles for Banks" consisting of 56 criteria that were used to evaluate six attributes of corporate governance. These attributes were derived from the stakeholder theory which is core to the organization of banking institutes. The development of the corporate governance indices was guided by an analytical framework for policy research. The assessment of the indices via scalogram analysis and univariate data indicators involved the measurement of dispersion, percentile analysis, scatterplots, the normal distribution bellshape curve, and a box-chart. These techniques allowed the description of the data from different perspectives.

The second section of the study focused on the application of convergence theories in corporate governance to the country profiles (in terms of the data obtained such as aggregate foreign/domestic share ownership, loan portfolios by sector, political stability indicators, etc) and the assessment of the likelihood of bank governance convergence was based on the theories. The type of data used were secondary data. Information on bank corporate governance was drawn from legal documents and each country's consolidated banking data. The cornerstone data were bank governance principles that were instrumentalized in the form of laws, regulations, guidelines, and notifications by the national banking supervisory authorities of each ASEAN countries and numerical data from the authority's online database and Orbis database. In terms of the data source, data were accessed electronically via public databases through the official websites of the banking supervisory authority of each country (other sources are cited accordingly) and the Orbis online database.

The study results suggested that bank governance rules are diverse across all ASEAN countries. Of the 56 assessed criteria, only two governance rules were common to all the studied countries. These were that cases that the board should approve the selection of the CEO and banks should establish a risk committee. There were also variances in terms of each country's commitment to strengthening bank corporate governance. One of the contributing factors was the depth and stage of the development of a country's financial sector. Another was the level of a country's compliance with the BCBS's governance principles for banks. For instance, Brunei, Singapore, and the Philippines were most compliant with BCBS's principles with compliance rates of 88%, 73%, and 64% respectively. Myanmar was the least compliant country and accounted for only 20% of the overall compliance rate.

Based on the study of four premises about legal systems, political conditions, cultural traits, and economics, the study suggested that there was a tendency towards convergence of the bank governance rules across ASEAN and that the adoption of a single standard was possible. Nevertheless, in order to approach a single rulebook of bank governance, several factors should be brought to the attention of the regulatory bodies and the ASEAN ABIF working group, such as differences in legal systems and political conditions, while the most important element was commitment and political will toward integration. The study also suggested that the most viable and optimal model for ASEAN is a hybrid model of governance convergence. This model requires benchmarking with the international standard and complements the features and conditions of ASEAN identities in terms of legal systems, financial sector development stages, regulator cooperation at a regional level, etc. Further characteristics of the proposed hybrid model are suggested for future research.

Declaration

I, Youradin Seng, declare that the DBA thesis entitled “Towards ASEAN Bank Governance Coherence – Theories of Convergence in the Corporate Governance” is no more than 65,000 words including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

I have conducted my research in alignment with the Australian Code for the Responsible Conduct of Research and Victoria University’s Higher Degree by Research Policy and Procedures.

[redacted]

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List of Publications

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Abbreviations

ABIF	ASEAN Banking Integration Framework
ACCC	Australian Competition and Consumer Commission
ACGA	Asian Corporate Governance Association
ACMF	Asian Capital Market Forum
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AMBD	Autoriti Monetari Brunei Darussalam (Brunei Darussalam Central Bank)
AMRO	ASEAN+3 Macroeconomic Research Office
APRA	Australian Prudential Regulation Authority
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUSTRAC	Austalian Transaction Reports and Analysis Centre
BCBS	Basel Committee on Banking Supervision
BIS	Bank for Internation Settlements
BNM	Bank Negara Malaysia
BODs	Board of Directors
BOI	Bank of Indonesia
BOL	Bank of Laos
BOT	Bank of Thailand
BREXIT	Blend of Britain and Exit
BSP	Bangko Sentral Ng Pilipinas (Central Bank of Philippines)
CBM	Central Bank of Myanmar
CEO	Chief Executive Officer
CLMV	Cambodia Laos Myanmar Vietnam
CMIM	Chiang Mai Initiative Multilateralization
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation (of the European Central Bank)
EBA	European Banking Authority
ECB	European Central Bank

FDI	Foreign Direct Investment
FSC	Financial Service Commitment (of the ASEAN)
GDP	Gross Domestic Product
GFC	Global Financial Crisis 2008
G20	Group of Twenty (19 countries and European Union)
MAS	Monetary Authority of Singapore
NBC	National Bank of Cambodia
OECD	Organization for Economic Cooperation and Development
RBA	Reserve Bank of Australia
ROA	Return on Asset
ROE	Return on Equity
SBV	State Bank of Vietnam
SEC	Securities and Exchange Commision (of the American)
SSM	Single Supervisory Mechanism (of the European Central Bank)
SREP	Supervisory Review and Evaluation Process (of the European Central Bank)
TWB	The World Bank

CHAPTER 1 INTRODUCTION

1.1 RESEARCH BACKGROUND

The ASEAN integration program aims to establish an ASEAN community comprising three pillars: ASEAN Political-Security Community, ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASEAN 2015a). The AEC integration which commenced in 2015 is believed by economists to have a profound effect on regional growth and spurs the growth of member countries through capital account liberalization, capital market development, and financial services liberalization (ASEAN 2015a). Of the other initiatives of AEC integration, ASEAN Banking Integration (ABIF) is initiated to facilitate capital market development and financial service liberalization (ASEAN 2018a). Banks are expected to operate freely and receive equal treatment to the local banks within the host countries (ASEAN 2018a). However, the difference in the development level of each member's banking system and the absence of standardized principles such as bank governance guidelines restrain banking integration (ASEAN 2018a). Furthermore, due to the lack of banking regulatory coherency, such as corporate governance guidelines, current banking integration is limited to reciprocal bilateral agreements.

This research aims to identify the gap in corporate governance across banks in ASEAN based on the Basel Committee on Banking Supervision's (BCBS) Corporate Governance Principles for Banks, which is a universally accepted bank governance guideline set by the BCBS. BCBS is the primary global standard setter for the prudential regulation of banks, comprising 45 members including the G20 countries except South Korea. ASEAN's Singapore and Indonesia are members, and Malaysia is an observer of the committee. The research then uses the theories of corporate governance convergence in the literature to draw conclusions about increased coherency. The research is based on secondary data (bank's annual reports and regulations).

1.2 RESEARCH PROBLEMS

The ASEAN economic community 2025 strategic action plan for financial service integration from 2016-2025 aims to achieve a number of targets, one of which is to accomplish "greater coherence of banking regulations for the ASEAN member states to support financial integration" (ASEAN 2016a). Due to the lack of banking regulatory coherency, current banking integration is limited to a reciprocal bilateral agreement (ASEAN 2016b) which means the arrangement is at a country level where two countries set rules that allow banks to operate in each other's territory. Rules are based on negotiation and not all banks are able to operate cross-border. Banks have to apply and meet certain criteria required by the host country. The successful bank is regarded as a "Qualified ASEAN Bank" and receives equal regulatory treatments in the host country as local banks (ASEAN 2018a).

In order to deepen banking integration, ASEAN needs to progress to the multilateral agreement stage to allow ASEAN-wide banking integration, meaning that all banks from the ten member states are able to conduct business in preferential countries within ASEAN. However, the multilateral agreement stage requires readiness in terms of regulatory infrastructure, especially the regulatory coherency as previously mentioned. For instance, prerequisite coherent banking regulations include, for example, minimum capital requirement, asset composition and classification, liquidity position, mandatory report requirement, governance code, etc. Of these, the bank's governance guidelines require a great convergent effort as there is a major asymmetry of bank governance standards and practices across ASEAN countries (Razook 2015). Despite economic and financial globalization, not only in the ASEAN economic community but around the world, the corporate governance pattern is still remarkably different across countries (Guillen 2000).

Some previous studies on corporate governance convergence suggest that there is international or regional convergence of governance practices despite substantial cultural, legal, and business differences which exist and persist across national boundaries (Branson 2001; Cheffins 1999; Cunningham 1999). Others questioned the value of convergence because of the differences in national systems and values (Bebchuk, Lucian & Roe 1999; Roe 2003). Nevertheless, there is no consensus on converging and diverging paths of corporate governance and academic debates are on-going. The study investigates this issue and whether the progress made by ASEAN Banking Integration toward increased bank governance practices is possible or desirable. This research also addresses this gap.

1.3 OBJECTIVES OF THE STUDY

Given that the bank's governance practices are highly sophisticated compared to non-financial firms with some aspects mandated by laws and some voluntary-based practices, it is fundamental that the convergent effort begins by understanding the current governance practices of each country, the common and different (gap) practices, and to measure the level of practices in each country. For instance, the governance code in Indonesia made it mandatory for corporates to establish a supervisory board in addition to an executive board (two-tier system) whereas the establishment of a supervisory board in Malaysia, Singapore, Thailand and the Philippines is optional (Allen 2013).

The objective of this research is to contribute to assessing the gaps and similarities in the governance guidelines currently in place in the various ASEAN countries and to resolving the question of whether a standard single set of bank governance guidelines would help to deepen ASEAN banking integration as envisioned by the ASEAN's central bank governors with the aim of providing information on introducing common governance practices in the ASEAN banking system.

1.4 RESEARCH QUESTIONS

This study investigates one main research question through the elaboration of four separate sub-questions. These are as follows:

The main research question is: Is it possible for ASEAN countries' banking frameworks to converge toward a single standard of banks corporate governance? What recommendations can be made to achieve increased coherency in the ASEAN bank governance frameworks?

The sub-questions are:

1. What are the present rules of governance in ASEAN banks and what are the commonalities and dissimilarities in terms of:
    1.1. Shareholder's rights and key ownership functions;
    1.2. Board of directors (responsibilities, expertise, structure, and remuneration); and
    1.3. Disclosure and transparency.

2. To what extent do the governance rules of each ASEAN country comply with BCBS's principles? and which countries demonstrated the most and the least alignment?
3. Do the relationships between corporate governance convergence or divergence theories with ASEAN data support or obstruct the adoption of a single standard of governance?
4. What is the most suitable model for ASEAN bank governance based on convergence theories? whether to converge toward the Western-based corporate governance model or to diverge toward its own design?

1.5 RESEARCH CONTRIBUTIONS

1.5.1 Academic contributions

This study contains originality and contributes in terms of the research problem, methodology, research subjects, and findings. To the best of the researcher's knowledge, this research is the first to address the issue of a single set of corporate governance guidelines for ASEAN banks. Despite the development of the single set of banking rules in the European Banking Union since the 2010s, to date, there is still an absence of academic research in the ASEAN context. In terms of research methodology, due to the specificity of the research problem, it requires an integrated methodology from a previous study with the researcher's own design. In addition, to ensure a fair comparison within the integrated economic community, the research involves all ten member states of ASEAN as research subjects. Most ASEAN studies tend to distinguish ASEAN into two separate groups: the more developed nations (Singapore, Malaysia, Indonesia, Thailand, Brunei, and Philippines) and the CLMV nations (Cambodia, Laos, Myanmar, and Vietnam) (Ab-Rahim et al. 2018; Mongid & Tahir 2011; Yamanaka 2014). Also, majority of the study tends to focus on countries with homogeneous economics condition. This research examines countries of heterogeneous economies in which development gaps exist across countries. Lastly, the findings of this research will help to promote academic interest in researching the ASEAN context which is relatively weak and outnumbered by studies on the European Union, Western countries, and country-specific studies.

1.5.2 Practical contributions

On a practical side, this research is beneficial to the ASEAN banking integration workgroup, bank supervisory authorities, banks, in terms of proposed integrated rules and broadly, ASEAN in terms of economic effect resulting from the integration of the banking sector when the regional integrated-regulatory frameworks permit the integration. The ASEAN banking integration workgroup is informed in regard to the common and different governance practices of ASEAN banks. In this case, the research collates data/information on the governance practices which allow the pattern of governance practices in ASEAN to be identified. The common practices can be benchmarked for the development of the single standard of bank governance guidelines. By conducting a vertical analysis (i.e., a comparison), it informs and provides insight to bank supervisory authorities especially in less developed markets such as CLMV regarding the level of governance practices in their countries. It enables them to locate their position among countries in the economic community and to have a better understanding of the need to foster their regulatory governance framework. It also provides a basis on which to identify loopholes in the governance regulatory framework and hence the development of a more effective framework. Also, the research informs banks about conventional governance practices. Therefore, good practices may be identified and adopted if suitable. Most important of all, the decision-making bodies may obtain a broader view in regard to the current and evolving governance practices, especially within ASEAN countries which may potentially lead to better decision making.

1.6 SCOPE OF THE RESEARCH

The study resolves the issue as broadly as possible. However, there are some boundaries to the study as follows:

1. The Islamic banking segment which is regulated by the Syariah Laws are bound to conventional rules and are required to comply to Syariah requirements, however these requirements are not studied. This research focuses on conventional banking and is thus limited to the set of rules which apply to conventional banking.
2. The findings are fundamentally derived from legal documents in the form of laws, regulations, or guidelines on bank governance set out by the banking regulator. Governance rules from the stock exchange commission or other authorities are not within the scope.
3. In a country where there is a two-tier board system in practice, the upper tier (board of commissioner or supervisory board) is not within the boundary of this research to maintain consistency in the analysis and explanation.
4. Conventional rules such as laws, regulations, guidelines, etc. are based on the latest available versions that were published on the public database (as of data collection period January 2020).

5. The lack of available English documents forced Laos to be excluded from the study. Therefore, the study is limited to nine ASEAN countries.
6. This study focuses on five of the13 BCBS's principles that are based on the literature review and are considered significant to governance, with the addition of one more principle from the OECD/G20 principles (shareholder's rights).

1.7 DEFINITION OF KEY TERMS

For the purpose of this study, **corporate governance for banks** is defined as *"a set of relationships between a company's management, its board, its shareholders and other stakeholders which provide the structure through which the objectives of the company are set, and the means of attaining those objectives are monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made*" (BCBS 2015).

The **Association of Southeast Asian Nations** (ASEAN) comprises 10 member states, namely Brunei, Cambodia, Malaysia, Myanmar, Laos, Indonesia, Philippines, Singapore, Thailand and Vietnam" (ASEAN 2019b).

A bank is defined as "*an entity whose business is to receive deposits, or close substitutes for deposits, from the public and to grant credits for its own account. Banks include the following entities: commercial banks, universal banks, savings banks, post banks, giro institutions, agricultural credit banks, cooperative credit banks and credit unions*" (BIS 2018).

A conventional bank refers to "a banking institute that is not bound to Syariah bank regulatory frameworks and form market segment of the conventional banking sector" (author's own definition).

1.8 STRUCTURE OF THESIS

To achieve the aforementioned research objectives, the content of this thesis is structured into eight chapters.

Chapter one is the introduction that presents the background of the study along with a brief description of the research issues, objectives, main question and sub-questions, scope, and contributions in relation to the academic and practical aspects.

Chapter two presents a literature review to build a foundation for the research framework and the whole study in general. It includes the theoretical issues of corporate governance, international development of standard practices, contemporary corporate governance issues in respect to stakeholder theory, and implications from the experience of governance convergence theories.

Chapter three provides the context of the study to streamline the perspective of the thesis specifically in the context of ASEAN and the corporate governance of banks. It comprises an introduction to ASEAN and its current positions, corporate governance development in the region, current environment of the ASEAN banking sectors and the integration and structure of its member state's financial system.

Chapter four introduces the development of the research framework. It explains in detail the study objectives and research questions and the justifications for the use of the stakeholder theory and BCBS's corporate governance principles for banks. The chapter also provides the variables for the construct of governance indices and the development of propositions in governance convergence.

Chapter five presents the research methodology and explains how the study is conducted. It includes the methodology paradigm, justifications for the chosen methods, study subjects, the scope and limitations in detail, and the data collection and analysis method. The chapter also justifies and elaborates on the use and development of the governance indices method in this study.

Chapter six presents the findings of the study. It is divided into two parts. The first part addresses the issue of the gaps in the governance rules across countries and the level of a country's compliance with BCBS's principles based on the constructed governance indices. Part two resolves the questions on the possibilities and optimal options of the ASEAN single governance standard for banks based on convergence theories from the literature and actual ASEAN data.

Chapter seven discusses the study results from the previous chapter and answers to the main research question and sub-questions. In particular, it provides explanations and explicit answers to the posed questions. It is divided into four parts, each of which addresses an individual research sub-question separately and in sequential order. The research propositions are also validated and explained. The last part of the chapter is on the prospective of the integration of ASEAN bank governance rules.

Chapter eight presents the conclusion and is the last chapter of the thesis. It summarizes the study results, re-states the study contributions and limitations after the study completed, and suggests directions for future studies.

CHAPTER 2 Literature Review on Governance Theories, Mechanisms and Codes and Convergence and Divergence Theories

2.1 INTRODUCTION

The start

According to Zingales (1998), the term "governance" has the same meaning as the "exercise of authority, direction and control". The everyday use of the term "corporate governance" in the financial press is a relatively new phenomenon which has emerged over the last fifteen years (Mallin 2010). But the philosophical theories behind the development of corporate governance have been studied from much earlier times and involves a variety of academic disciplines such as law, management, accounting, finance, economics and organizational behavior (Mallin 2010). The evidence can be traced as far back as the early twentieth century, when in 1932, Berle and Means, who addressed the issue of the separation of ownership and control, were the first to investigate the structural and strategic implications of the modern and efficient form of a company (Clarke 1998).

Despite the recent usage of the term, the issue of governance has long been a subject of controversy, probably since people started to assemble for common purposes (Clarke 2004). The purpose of "how to ensure the power of organization" has been the constant theme of all debates (Clarke 2004). The theoretical debates then led to the beginning of different theories/models of corporate governance (Clarke 2004).

Corporate governance definitions

Various scholarly attempts have been made to define the term *corporate governance* (Thanh Tu, Huu Loi & Hoang Yen 2015). Two decades ago, Zingales (1998) viewed corporate governance as a set of mechanisms and associated corporate governance mechanisms with a corporation's generated income. He defined corporate governance as follows: "the allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labor market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed".

Two years later, a renowned scholar in the corporate governance discipline, La Porta, also attempted to define corporate governance. Rather than associating the definition with income, he emphasized the issue of corporation conflicts. He viewed corporate governance as "a set of mechanisms in which outside investors protect themselves against problems arising from conflicts of interest from the managers and controlling shareholders" (LaPorta et al. 2000).

From a best practice point of view, the OECD defined corporate governance as "the exercise of power in corporate entities" (OECD 2015). The OECD also provided a functional definition of corporate governance as a system by which business corporations are directed and controlled through structural mechanisms (distribution of rights and responsibilities among board, managers, shareholders and other stakeholders) that spelt out the rules and procedures for decision making (OECD 2015).

The Basel Committee of Banking Supervision defined corporate governance in its Principles of Corporate Governance for Banks as "*a set of relationships between a company's management, its board, its shareholders and other stakeholders which provide the structure through which the objectives of the company are set, and the means of attaining those objectives are monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made*" (BCBS 2015).

The most recent attempt for a definition of corporate governance was made by Plessis, Hargovan and Bagaric (2018) in the 4th edition book of Principles of Contemporary Corporate Governance. He defined corporate governance as a system of regulating and overseeing corporate conduct to equalize the interests of internal and external stakeholders, governments, and local communities which can be impacted by corporate conduct, and to ultimately guarantee both responsible corporate conduct and to accomplish the highest levels of efficiency and profitability for the corporation (Plessis, Hargovan & Bagaric 2018).

Whose definition had more weight than the others? It depends on the lens that one uses to view corporate governance, whether from the perspective of agency, stewardship, stakeholder, or other theories. An agency theory-focused scholar tended to emphasize the separation of control and ownership, where the stewardship concept-based scholar depends on good steward practices, and a proponent of stakeholder theory was likely to favor a firm's relationship with internal and external stakeholders and strongly encouraged corporate social responsibility.

2.2 THE EMERGENCE OF CORPORATE GOVERNANCE

2.2.1 AGENCY THEORY

The dominant model which was the most popular theoretical explanation during the last decade of the twentieth century is agency theory which focused on the separation of control and ownership (Clarke 2004). The very first emergence of the theory was from seminar papers of Alchian and Demsetz (1972) and Jensen and Meckling (1976) (Clarke 2004). They explained a firm as a nexus of contracts among individual factors of production and drifted from the notion of maximizing profit for single-product entity (Clarke 2004). Prior to the 18th century industrial revolution and the era of traditional forms of enterprise, an owner of an enterprise maximized profit by performing three core functions: having interests in an enterprise, having power over the enterprise, and acting with respect to the enterprise (Berle & Mean 1932). This was when mass production did not exist and the size of an enterprise was sufficiently compact that it allowed an owner to be the single-point decision maker. Under the modern form of a corporate system where there were thousands of factors of production under one single company, these functions were divided among the principle and agent, at least under the assumption of agency theory.

Agency theory proposed that the force that allowed a firm to operate is the constantly re-negotiated contract contrived by a collection of individuals who seek to maximize their own utilities (Learmount 2002). This was the perfect explanation for the modern form of corporation in which financiers hire managers specialized in human capital to take control of the firm to generate returns on their funds in return for financial incentives.

Therefore, agency theory brought about the critical issue of "the separation of management and ownership" that often results in high-level conflict. For instance, financiers and managers came to an agreement of what managers were to do with the funds and how to divide returns between them. However, where the future was uncertain, it was impossible to have a complete contract that ideally set out the control rights and alternative allocations of funds in case of contingency. Therefore, the two parties had to pre-allocate residual control rights that do not have the basis and therefore managers tended to end up with substantial residual control rights. This gave managers the discretion to misallocate financiers' funds to their own interest. Hence, the essence of agency theory was tied to the "separation of ownership and control" (Jensen & Meckling 1976). Table 2.1 explains the conceptual idea of agency theory based on Eisenhardt (1989).

Table 2-1. Agency theory overview. Adopter from: Eisenhardt (1989).

Key idea	-Principal – agent relationship should reflect efficient organization of information and risk-bearing costs
Unit of analysis	-Contract between principal and agent
Human assumption	-Self-interest -Bounded rationality -Risk aversion
Organizational assumption	-Partial goal conflict among participants -Efficiency as the effectiveness criterion -Information asymmetry between principal and agent
Information assumption	-Information as a purchasable commodity
Contracting problems	-Agency (moral hazard and adverse selection) -Risk sharing
Problem domain	-Relationship in which the principal and agent have partly differing goals and risk preferences (i.e., compensation, regulation, leadership, impression management, whistleblowing, vertical integration, transfer pricing)

2.2.2 STEWARDSHIP THEORY

Stewardship theory evolves from agency theory. Psychological studies of human behavior discovered a larger range of human motives apart from economic gain as self-interest, including the need for achievement, responsibility, and recognition, to as far as altruism, belief, respect for authority, and the intrinsic motivation of an inherently satisfying task (Wood & Bandura 1989). By factoring in the positive psychological motivations of managers, stewardship theory views that the way a manager behaves is based on manager-principal choice, and the choice is contingent on two main factors: their psychological motivations and their perception of the situation (Donaldson & Davis 1991). The possibilities are managers chose to be an agent or steward or financiers choose to create an agency or stewardship relationship. A steward relationship eliminates the inherent issue of the conflict of interest between managers and financiers, and it purports that the optimum governance structure enables enterprises to achieve coordination effectively and maximize performance and managers are not opportunists but good stewards who pursue the collective rewards of financiers and all other participants (Donaldson & Davis 1991). Conversely, the agent relationship maintains issues arising from the individualistic model of agency theory such as asymmetric information, adverse selection, and moral hazard. So that is to say when there is a mutual stewardship relationship, the firm's performance is maximized. When there is a mutual agency relationship, the potential costs of the firm are minimized. On one hand, when there is a contradictory choice, the party who chooses the steward relationship is betrayed and the party who chooses the activity is opportunistic (Davis, Schoorman & Donaldson 1997). Such a decision is contingent upon the principal assessment of the agent's motivation and vice versa and the environment of the situation. Figure 2.1 illustrates the agent and principal choice.

		Principals' choice	
		Agent	*Steward*
Managers' choice	*Agent*	-Maximize potential costs -Mutual agency relationship	-Agent acts opportunistically -Principal is angry -Principal is betrayed
	Steward	-Principal acts opportunistically -Manager is frustrated -Manager is betrayed	-Maximize potential performance -Mutual stewardship relationship

Figure 2-1. Principal-manager choice model. Adopted from: Davis, Schoorman & Donaldson (1997).

In essence, stewardship theory is contradictory to agency theory. Agency theory purports that the agent/manager operates in a manner of self-interest other than those of owner/principal while stewardship theory suggests that a manager is motivated by a range of psychological factors so that a decision based on self-interest is not always the case. Standing on the tenet of stewardship theory, one can say that a manager maximizes a shareholder's wealth by optimizing company performance which can be achieved by motivation toward self-esteem and an attitude to contrive best interest for everyone (Davis, Schoorman & Donaldson 1997).

2.2.3 STAKEHOLDER THEORY

Should a firm be run for the sole purpose of maximizing shareholder interest? This is an old-style question that was commonly found in research papers in the early 20th century. It was led by the finance myopia view which is strongly associated with agency theory which assumes the proper social purpose of a corporation is to generate returns for shareholders at its maximum capacity as reflected in share price (Blair 1995). Even though the issue of share price was at the heart of the corporate governance debate, a new view started to materialize during the late 20th century. In particular, in the 1960s, consumer advocates, environmentalists, and social activists advocated that the purpose of corporations was not to solely serve the interests of shareholders via the stock price, rather corporations should perform a higher social purpose (Blair 1995). A better way of explaining this view is that a "corporation is a socially responsible institution that should be managed in the interest of the public" (Blair 1995).

Stakeholders are "those groups without whose support the organization ceases to exist" (Freeman & Reed 1983). As a more practical definition, contemporary stakeholder theory presents the concept of a firm as a set of firm-internal and external relationships rather than a series of transactions in which managers are responsibly concerned about the interest of all stakeholders (Clarke 2004). Stakeholder theory exhibited the role of managers is to struggle with the need to satisfy the interest of a complex constituencies more than other theories would suggest (Clarke 2004). The relationship between the firm and internal stakeholders (employees, managers, and owners) has becoming increasingly significant as modern corporations rely heavily on employees' specialized skills and corporate constituencies are becoming more demanding (Clarke 2004). This relationship was defined by formal and informal rules generated over time through the history of the relationship. A firm's relationship with external stakeholders (customers, suppliers, competitors, and special interest group) is also governed by the formal and informal rules, where external stakeholders are defined as those who contribute to firm-specific assets and who share the risk of firm success or failure. Other important stakeholders are the government and local communities which have the authority to set and impose rules to which the firm must abide (Freeman 1994). Table 2.2 provides a list of those who are recognized as stakeholders in an organization, according to Clarke (1998).

Table 2-2. Contractual and community stakeholders. Adopted from: Clarke (1998).

Contractual stakeholders	**Community stakeholders**
Shareholders	Consumers
Employees	Regulators
Customers	Government
Distributors	Pressure group
Suppliers	The media
Lenders	Local communities

Similar to Clarke (2004), Berle and Mean (1932) explored the structural and strategic implications of a modern organization (separation of owner and control) and recognized the lesser contributions of shareholders in managing the corporation and the increased influence of professional management (Berle & Mean 1932). This is due to the recognition of other stakeholders' influence on the success of the organization as corporations grow larger (Clarke 1998). As illustrated in Figure 2.2, Berle and Means showed the assumed management's responsibilities on physical capital and the relationships between organizations with other stakeholders that is crucial to resources, operations, and the value of the organization (Clarke 1998). They further argued that *"*neither the claims of ownership nor those of control can stand against the paramount interest of the community*" (Berle & Mean 1932).*

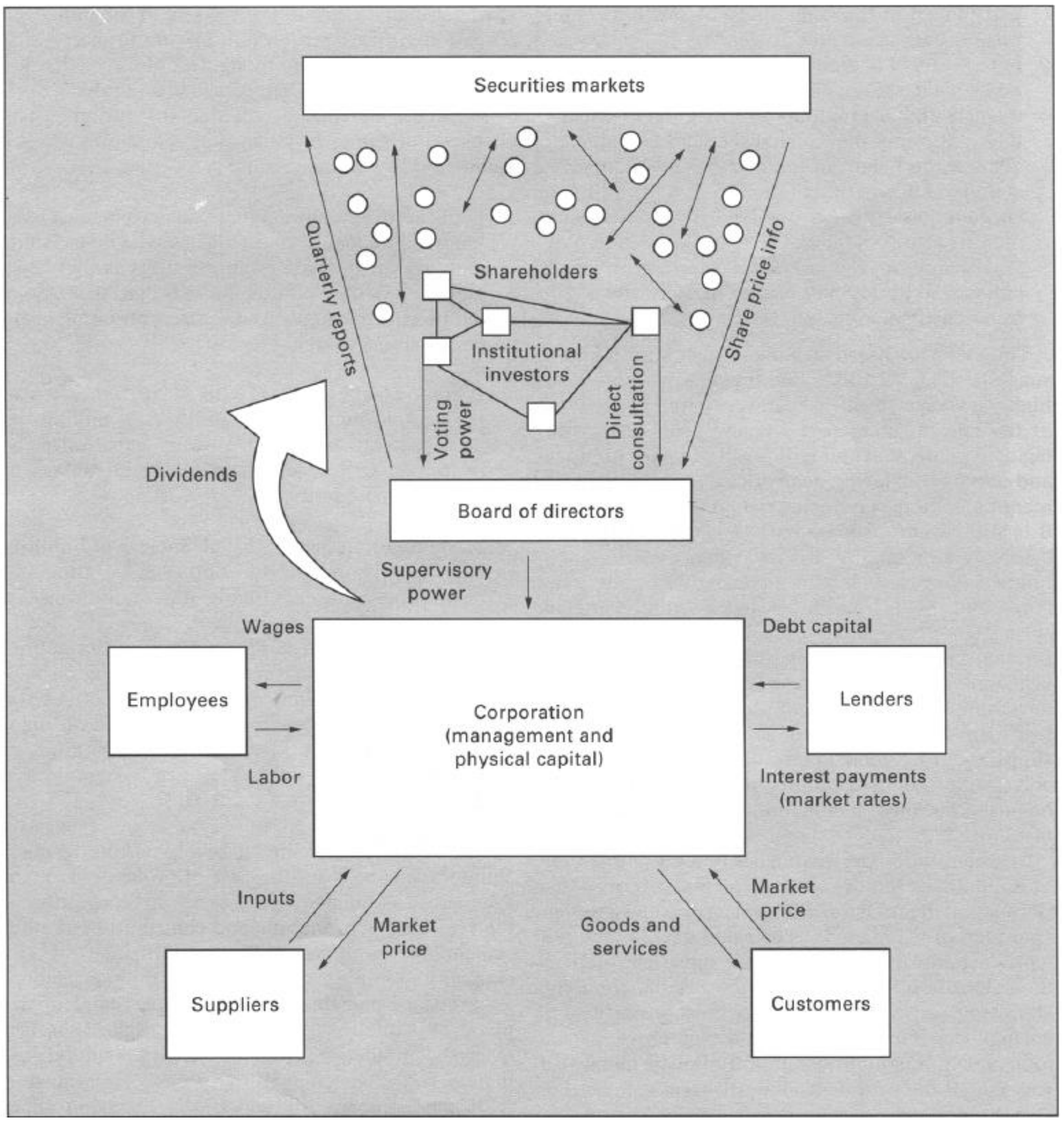

Figure 2-2. "Revised Berle and Means' model with institutional investors" in "The stakeholder corporation: A business philosophy for the information age". Adopted from: Clarke (1998).

After identifying the stakeholders and what a firm gets out of the stakeholder's relationship, another question is what do stakeholders want and what does the firm have to offer? Table 2.3 provides answers to these questions.

Table 2-3. What do stakeholders want? Adopted from: D.G., Edwards & F. (1996).

Stakeholder	Expectations of stakeholder from the company	Nature of accountability by the company
Employees	-Remunerations, employment security, training -Dividends and share price appreciation	-Company reports, employments news, bargaining information -Annual report and accounts, merger and takeover information
Customers	-Quality, service, safety, value for money	-Sale literature, advertising, servicing
Bankers	-Liquidity and solvency, value of security, cash generation	-Cover ratios, collateral, cash forecasts
Suppliers	-Stable and enduring relationship	-Payment according to terms
Government	-Compliance with law, jobs, competitiveness, accurate data	-Reports to official bodies, press release
General public	-Safety of operations, contribution to the community	-Safety reports, press reports
Environment	-Benign operations, substitution of non-renewable resources	-Environment reports, compliance reports

Table 2.3 details the concept of stakeholder theory in a common corporation in terms of capital structure. This concept is equally crucial to banking corporations for the reason that its asset and equity structures involve the public, commercial entities, government entities, non-government organizations, local and international communities, and so on whether directly through products and services or indirectly influenced by the ripple-effect in an event of crisis. Therefore, in line with this explanation, the issues concerning bank governance were derived from every angle, internally or externally. Frequently discussed in the literature are shareholder rights, board of directors (composition, expertise, meeting, responsibilities, and remuneration), disclosure and transparency.

Nevertheless, owing to the infancy of the view, the tenet lacked theoretical rigor and did not provide sufficient guidelines to practitioners (directors and managers) nor enforcement mechanisms that would allow corporations to fulfil social obligations to live up to the view (Blair 1995). To some, the concept appeared to be little more than a public relations duty

(Clarke 1998). On the bright side, the concept might have evolved from a morale mandate to a managerial necessity where we were living in a world of competitive advantage in which the success of business is contingent upon the bargains of intellectuals manifest in humans and social capital (Plender 1997). In light of this, Clarke (1998) predicted it is likely that companies will further investigate the application of the stakeholder concept and apply it to governance practices.

2.3 CORPORATE GOVERNANCE MECHANISMS – THE EVOLVEMENT

A firm's corporate governance structure is defined by internal and external mechanisms (Banks 2003). Stakeholder theory concerns both aspects of governance mechanisms. However, external governance such as corporate, social and environmental responsibility of the firm is beyond the boundary of this study. Some internal governance mechanisms surrounding stakeholder theory are discussed in the following section. The internal governance mechanisms are shareholder rights and protection, BoDs (composition, qualification, duties and responsibilities and remuneration), and disclosure and transparency.

2.3.1 Shareholder rights and protections

The ideology of shareholder value gained traction in the 1800s and led to the revelation of agency theory by Alchian and Demsetz (1972) and Jensen and Meckling (1976) (Lazonick & O'Sullivan 2000). Since the early 20th century, United States corporations enjoy success through the principle of the "retain and reinvest" business strategy. Gigantic corporations which grew too big meant its central offices were in a state of information deficiency and they lost control of their decision-making capabilities in relation to the reinvestment of its retention on physical capital and human resources. Consequently, uninformed investment decisions together with competition pressure (from Japan) orchestrated an unforeseeable under-performance of United States corporations in the 1970s. In a bid to reserves the downturn, a group of American financial economists (Alchian and Demsetz (1972) and Jensen and Meckling (1976)) developed a corporate governance model called "agency theory" that put the issue of shareholder value at the heart of the concept (Lazonick & O'Sullivan 2000). The ideology had since been at the center seat of corporate governance debates and as a manifest the *OECD Principle of Corporate Governance* stresses that "*corporation should be run, first and foremost, in the interests of shareholders*" (Lazonick & O'Sullivan 2000).

Legal rules pertaining to shareholder protection were different across countries (LaPorta, Silanes & Shleifer 1998), meaning that being a shareholder in Japan entitles an investor to a very different set of rights to those in Germany. In 1998, La Porta studied shareholder protection from legal rules perspective in 49 countries in Europe, North and South America, Africa, Asia, and Australia. The research found that countries whose legal rules originated from the English common law system (such as Australia, Canada, Singapore, United States, UK, etc.) tended to protect investors considerably more than in countries whose legal rules originated from the French civil law system (such as Brazil, France, Italy, Mexico, Spain, etc.) (LaPorta, Silanes & Shleifer 1998).

According to Peter's et al. study of shareholder voting rights, activism through the vote was fundamental to corporate governance processes (Peter et al. 2015). In his research, he focused on laws pertaining to shareholder voting rights in 43 countries. He found that shareholder voting is an important mechanism to improve the corporate governance of firms. A shareholder was mandated to vote on important decisions such as the election of directors and merger and acquisition deals (Peter et al. 2015). Also concerning the shareholder vote, Assaf and Yishay (2013) studied the link between minority shareholder rights and institutional investors. He found that in order to empower the minority shareholder voting rights against decision of institutional investors in a shareholder meeting, it required a clear legal duty to cast votes by minority shareholders themselves (Assaf & Yishay 2013).

2.3.2 Board of directors

A few decades ago, Mace (1971), in his acclaimed report on the United States directorship, asserted that although directors had played a role in business for over 150 years (as at 1971), there were no clear definitions or rules relating to the functions of directors in general corporation law, judicial opinions on legal issues, or the business literature. However, the phenomenon has evolved. Today, the board of directors is the critical nexus in which the wealth of the corporation is decided (Clarke 2007a). Internally, the board was the DNA of the firm and defines the routes and objectives of the entity by the means of leadership and guidance (Clarke 2007a). Externally, the board is the only connector between shareholders and managers and other significant stakeholders of the firm (Clarke 2007a). Thanks to the development of successive business literature that embraced frameworks analyzing board activities (one being the framework by Hilmer and Tricker (1991) as shown in Figure 2.3), the role of the board became more viable. According to Clarke (2007a), the central roles of the board were:

1 Control: control the management of the company in an accountable manner.
2 Strategy: decide and manage decisions that are strategic to the business.
3 Counsel: direct and advise managers on important issues.
4 Institutional: shape and maintain institutional relationships amongst investors, stakeholders, and communities.

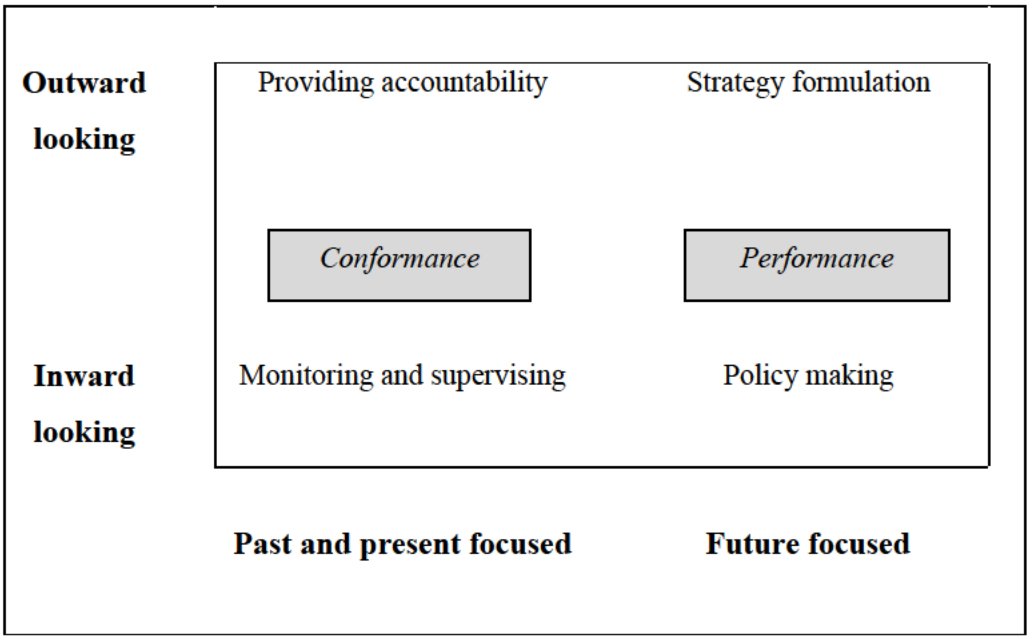

Figure 2-3. Framework analyzing board activities. Adopted from: Hilmer & Tricker (1991).

2.3.2.1 Board structure and composition

Different models of board structure exist across countries. There is no conventional consensus as to which board structure is more effective than another. The OECD recognized that there is a variety of board structures, nevertheless they perform similar purposes (OECD 2015). For instance, the United States has a unitary board system with the majority of non-executives and the chairman and CEO is commonly the same person (Clarke 2007a). Likewise, the United Kingdom also enacted a unitary board dominated by non-executives, however the role of the chairman and CEO are separate (Clarke 2007a). On the contrary, several European countries (Austria, Denmark, Germany and Netherland) have applied a two-tier board system (Mallin 2010). In Germany, stakeholders represented in supervisory board with a clause which precludes executives on management board from facing accountabilities to member external to company (Clarke 2007a). Clarke (2007a) pointed out that Asian boards were likely to portray dominant family interests and majority shareholders and control is married to ownership.

A unitary board is a system where there is only one board which is made up of non-executive and executive directors who are accountable for all aspects of a business's activities. These board members are elected by shareholders at the annual general meeting. This one-tier board appoints managerial members of the company. Advocates of a unitary board system highlighted its advantage as it enables a closer relationship and more effective information flow as the company engine heads sit in the same boardroom (Mallin 2010).

How did the two-tier board start? To start with, Germany developed its modern form of corporation law from the 1900s and took a different path from the United States and United Kingdom models, resulting in powerful banks and weak equity markets (Farrar 2005). Great banks were created to encourage the focus on long-term investment, as well as the beginning of the worker council. The council was introduced on a voluntary basis as a worker-company relationship remedy via consultations. It was originated with the purpose of social governance other than corporate governance (Farrar 2005). In 1965, new laws for public companies (called Aktiengesetz in Greman) were passed that made two-tier boards a requisite along with other mandates. The upper tier, supervisory boards typically comprised between 3 to 21 members and must call a meeting on a quarterly basis that lasts for an average three hours 45 minutes (Farrar 2005). In practice, their main duties were reporting financial results, accessing CEOs, and delegating responsibilities to workers (Farrar 2005). Half of the supervisory board members were elected by workers in a company of 2,000 employees or more; for companies with less than 2,000 employees, one-third of the supervisory board members were elected by employees. The voice of workers were ascertained as for the fact that two-thirds of their pension fund were retained within the company for reinvestment (Farrar 2005). Germany's two-tier board system owed much of its foundation to the worker council. Nowadays, a two-tier or dual board system comprises a supervisory board and an executive board of management (Mallin 2010). The function of these two boards was explicitly separated in which the supervisory board controls the business direction and the management board oversees the day-to-day operations (Mallin 2010). A precise formal distinction between "management and control" was the main advantage of this system as a member of one board is not eligible for membership of another board. Members were appointed to the supervisory board by shareholders (a portion by workers in the case of Germany) and members of the management board were appointed by the supervisory board (Mallin 2010).

The composition of a board shall be the combination of experience, skills, and other compulsory knowledge of board members (Carter, CC & Lorsch 2004). However, recent research has investigated the correlation between board gender diversity and firm performance. For example, Campbell and Mínguez-Vera (2008) found that a higher degree of board gender diversity may increase the economic gain of the firm. They investigated the relationship between the gender diversity of the board of director and firm financial performance in Spain. They found that the presence of female board members has a positive effect on firm value and gender diversity can be achieved without negative impact to shareholder value (Campbell & Mínguez-Vera 2008). Thanh Tu's et al. (2015) studied this relationship in the ASEAN banking sector by investigating 70 of the largest banks in ASEAN. Their findings reported that higher percentage of women inclusion on the board of directors has a positive impact on a firm's return on asset (ROA) and return on equity (ROE) (Thanh Tu, Huu Loi & Hoang Yen 2015). Similarly, Carter, DA, Simkins and Simpson (2003) conducted research on Fortune 1000 firms and found a link between board diversity in term of gender (percentage of women) and minority groups (African Americans, Asians, and Hispanics) with firm value. They asserted there was a positive relationship between board diversity and firm value and also reported that the percentage of women and minorities on the board of directors increases with firm size and board size (Carter, DA, Simkins & Simpson 2003). The same finding was also reported in a study of 73 banks from 13 European countries by Belhaj and Mateus (2016). They found that more women members on a large board of directors led to a better bank performance (Belhaj & Mateus 2016).

2.3.2.2 Qualifications of directors

The global financial crisis called for economic policy action in relation to banking regulations. Amid a number of key reforms, corporate governance was at the center of the debate. One of the many corporate governance reforms proposed in Germany was the requirement for a qualification standard for members of a bank's non-executive supervisory board (Korner et al. 2013). A study on the qualifications of the members of a supervisory board of German banks was conducted through a five-page questionnaire distributed to non-executive board members. The inquiry included educational background, professional status, and relevant experience and activities. The study found that their general education was at an overall high level whereas only a handful were competent in banking and finance knowledge, which was especially true for the chairman of the board (Korner et al. 2013). Another study was conducted on Nigerian firms from the period between 1991 to 2008 (Ujunwa 2012) in an attempt to discover board characteristics, including the influence of qualifications on firm performance. Ujunwa (2012) found that the number of board directors who held a PhD qualification had a positive correlation with the performance of quoted firms, however this was not the case for small firms (Ujunwa 2012). The study was based on 122 quoted firms and 160 small firms.

Surprisingly, there is very niche scholarly interest in the aspect of a director's qualifications. This may be due to the fact that the criterion of a director's qualification is not included in primary corporate governance principles, except for the BCBS's corporate governance principles for banks. The BCBS's governance principles were aimed at banks which require rigorous regulatory supervision compared to common companies. Although no specific qualification requirements were stipulated, several notable mandates are as follows. The board must be "*suitable*" to conduct its responsibilities and should comprise individuals of skills, expertise, and diversity who collectively account for needful qualifications corresponding to the complexity, size, and risk profile of the banking entity. The assessment of the acceptability of collective qualifications includes but is not limited to the following: board members should possess a wide range of knowledge and experience and competence in related areas including "*capital market, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, and corporate governance and management skills*" (BCBS 2015).

2.3.2.3 Duties and responsibilities of board and directors

The previous section (board of directors) briefly explained the big picture of the overall roles of the board. This section delves more deeply into the specific duties and responsibilities of the chairman and board members.

According to Cadbury (2002), "*the primary task of chairmen is to chair their boards*". It is sole responsibility of the chairman to run the board (Cadbury 2002). The responsibilities of the chairman include but are not limited to the following (Mallin 2010):

1 Running the board and guaranteeing that board members meet on a regular basis
2 Ensuring that board members have access to sufficient information to enable them to contribute to informed decision making in board meetings
3 Ensuring board members are given equal opportunities to express their opinions in board meetings.

Based on the BCBS's corporate governance principles for banks, the chairman is responsible for the overall effectiveness of the board and should (BCBS 2015):

1 Establish and develop a relationship of trust among board members
2 Guarantee that all the board's decisions are made in a sound and well-informed manner
3 Stimulate critical discussions and ensure that opposite views for members are voiced and taken into consideration in the decision-making process
4 Devote sufficient time to carry out their responsibilities.

On one hand, board members (including the chairman) should exercise their "*duty of care*" and "*duty of loyalty*" to the bank entity in accordance with local laws and supervisory regulations (BCBS 2015). Duty of care is defined as a duty to make a decision and act in a prudent and informed manner as for example, the way one would decide on self-affair (BCBS 2015). Duty of loyalty refers to duty to act in good faith with respect to the company's interest such as to forbid any act that would result in self or other party's interest at company's expense (BCBS 2015). On the basis of theses duties, board members are responsible for (BCBS 2015):

1 Participating actively in the bank's affairs, identifying material changes internally and externally and responding in timely manner in the best long-term interests of the bank
2 Developing, approving, and monitoring the bank's long-term goal and business strategies
3 Taking a leading role in establishing the bank's value and corporate culture
4 Monitoring the bank's governance framework and reviewing it on a regular basis. Making adjustments in response to changes such as the bank's size, product and service complexity, regulatory requirements etc.
5 Establishing and overseeing the risk governance framework
6 Monitoring the bank's adherence to the established risk appetize statement, risk policy and risk limit
7 Approving and monitoring key policies such as capital adequacy assessment process, capita and liquidity plans, compliance policy, internal control system, etc.
8 Ensuring the bank's financial function robustness to handle accounting data
9 Approving financial statements and establishing independent review
10 Approving and monitoring CEO performance and senior management
11 Monitoring the bank's compensation scheme
12 Supervising the effectiveness, independence, and integrity of the whistleblower policy.

2.3.2.4 Remuneration of directors

The remuneration of directors and CEOs is one of those corporate governance heated issues that have attracted the attention of scholars and policy makers over the last two decades (Solomon 2010). Two aspects of remuneration shape the debate. One is its role as a means to influence company management and hence lessen the agency problem of the firm. As pointed out by Bushman and Smith (2001), agency theory suggests that shareholders should develop a righteous remuneration contract that is determined by performance results as disclosed in the company accounts, to create a parallel line between managerial incentives and shareholder interests. This was done by the arrangement and calculations based on the publicly disclosed financial statements and a well-designed compensation contract (Bushman & Smith 2001). However, this part of the debate was unlikely and tended to be found when one sought to leverage the principle-agent corporate governance model.

On the other hand, the most heated debate which occasionally appeared to be a condemnation is the current remuneration arrangement. To give an example, Bebchuk, L. and Fried (2004) found that compensation contracts are significantly flawed and misrepresent shareholder value by increasing pay levels and more seriously, leads to a practice which "*dilutes and distorts*" the incentives of managers and employees. In a study conducted on large U.S. public firms, Rüdiger (2009) found that the governance mechanism that gives more power to top executives (referring to as CEO-chair duality) tended to have more CEO pay-for-performance sensitivity, meaning the CEO is often paid more. Also, a report by the International Labor Organization blamed the performance pay system for CEOs and directors in the context of global corporate governance which contributes to widening the gap in income distribution (Mallin 2010). It is worth mentioning that the performance pay system can be found in three distinctive forms: i. market-based approach (share return, share price, etc.), ii. account-based approach (return on capital, profit, etc.), and iii. individual-based approach (individual director key performance index) (Mallin 2010). Mallin (2010) categorized the director's remunerations which include:

1. Base salary
2. Bonus
3. Stock option
4. Restricted share plan (stock transferable grant for a set time and performance conditions should be met)
5. Pension
6. Other benefits (car, health insurance, etc.).

Condemnation over the remuneration issue was found in large corporations especially the one of banking business during the global financial crisis. The performance pay system is the critical vehicle that drives those crisis-igniter banks which are in the positions of excessive risk exposure. Since then, the importance of establishing remuneration committees was equal to audit and nomination committees. In this sense, BCBS's corporate governance principles for banks strengthened the standard for the banks' remuneration framework. For example, the principles emphasized that a bank's remuneration framework must support strong corporate governance and risk management (BCBS 2015). Hence, those too-big-to-fail banks (systematically important banks) should establish board sub-committees (remuneration committees) as an integral part of the governance structure, or else a board responsible for this function in a smaller entity. The function is to implement and oversee a bank-wide remuneration system including remuneration plans, processes, and outcomes and review at least once a year in respect to the bank's risk profile, capital and liquidity and in line with its business strategy, objectives, values, and long-term interests (BCBS 2015). To prevent an excessive risk-taking culture, a remuneration policy should encourage a sound risk culture or in other words bonus program should not incentivize CEOs, directors, and managers to take excessive risk (BCBS 2015). Also, the board and sub-committee should together set and approve the compensation of top-level executives including CEO (BCBS 2015).

2.3.3 Disclosure and transparency

Transparency is a prerequisite for good governance (Kaufmann & Weber 2010). In their study, Kaufmann and Weber (2010) found that transparency in an institutional aspect such as procedure and decision-making is the foundation for creating trust. Chipalkatti (2005) reported that transparency through better quality disclosure promotes market discipline and is also positively received by investors. However, transparency comes at a cost. Vishwanath and Kaufmann (2001) reported that achieving transparency incurs cost and as well as benefits and transparency in and of itself is not effective without enforcement efforts. The same was found in the study by Hyytinen and Takalo (2002) which reported that transparency is costly for banks. The direct cost associated with being transparent is the incremental investment to the information and book-keeping system that is mandated by the transparency regulation (Hyytinen & Takalo 2002), while indirect costs occur when the banks try to gain an advantage by using an information monitoring activity to keep an eye on their rivals (Hyytinen & Takalo 2002).

Setting aside these advantages and costs, transparency in a banking entity is required to be at a level higher than common corporations due to the nature of its business. The BCBS's corporate governance principle number 12 elaborated how bank should be transparent in term of governance. It stressed that the bank's governance should be appropriate and sufficiently transparent to its shareholders, depositors and other stakeholders (BCBS 2015). The objective is to provide adequate information to these parties so they can assess the performance of the board and senior management and the information should be proportionate to the size, complexity, structure, economic importance and the risk of the bank (BCBS 2015). In terms of bank governance information, at a minimum, bank should disclose the following on an annual basis:

1 The selection and recruitment process of the board of directors in respect to a wide range of skills, backgrounds, and views.
2 The existing and newly created board committees and how many times these important committees meet.

Banks should disclose clearly, accurately and in an understandable manner (by non-finance background individual) the following (but not limited to) information (BCBS 2015):

1 Bank's objective
2 Organizational and governance structure
3 Content of policies and codes such as corporate governance, remuneration, etc.
4 Major share ownership and voting rights
5 Related parties' transactions
6 Key indicators about its risk exposures and risk management strategies with boundary to its internal confidential information.

This information should be published in a timely manner that can be accessed on the bank's public website, in the annual report, in periodic financial reports, or other means considered appropriate (BCBS 2015).

2.4 INTERNATIONAL DEVELOPMENT OF CORPORATE GOVERNANCE

2.4.1 OECD PRINCIPLES

The most referred to OECD Principles of Corporate Governance have been a benchmark for national governments to establish and develop its regulatory frameworks as well as a handy source for investors, companies and other stakeholders to consult on good corporate governance (OECD 2015). The non-binding principles recognized the differences across countries and comprise common characteristics fundamental to the foundation of good corporate governance (Mallin 2010). It was first published in 1999 following a call from the OECD council, and the principles became a corporate governance basis not just for OECD member countries, but it extended to international benchmarks for non-OECD countries (Mallin 2010). The first version was the result of various discussions with the World Bank, governments at national levels, private sectors, and other international organizations (OECD 2015). It is worth noting that OECD is a unique forum where governments from 36 member countries (as of Aug 2019) work together to solve pressing issues on economics, social and environmental in the global context (OECD 2015).

The revised version was published in 2004 in respect to its first review. In the wake of the 2008 global financial crisis, the OECD Corporate Governance Committee conducted another review. The second review was based on the 2004 edition and was set under the context of changes in both the corporate and financial sectors. As a result of the second review, the 2015 edition received strong recognition, including endorsement from the G20 countries in the G20 leaders' summit in November 2015 in Turkey. The new version was named G20/OECD Principles of Corporate Governance. Also, the Financial Stability board adopted the principles as one of its lead standards in the move toward healthy financial systems. The 2015 principles represented built-up common understandings of the need for stronger transparency, accountability, board oversight, respect for shareholder's rights and the increased importance of the role of key stakeholders which is critical to the foundation of a well-functioning corporate governance system of the company. The latest 2015 version comprised six main principles: ensuring the basis for an effective corporate governance framework; rights and equitable treatment of shareholders and key ownership functions; institutional investors, stock markets and other intermediaries; the role of stakeholders in corporate governance; disclosure and transparency; and responsibilities of the board. (OECD 2015)

2.4.2 BCBS – GUIDELINE FOR CORPORATE GOVERNANCE

The Bank for International Settlement (BIS) was created in 1930 and as of today, it belongs to 60 central banks around the world through capital shareholding. BIS is a bank for central banks that aims to assist central banks pursue monetary and financial stability. In addition to providing financial products and services designed to help central bank clients manage their gold reserves and foreign currency exchange, BIS fosters international cooperation among monetary authorities and financial supervisory authorities, known as the Basel Process, through regular meetings of high-level monetary and financial officials and assists collaboration with international groups in the pursuit of financial stability. International groups refer to BIS committees and associations as standard setters. Under the support of BIS's secretariat, there are six committees working on background analysis and policy recommendations toward financial stability, namely (BIS 2019):

1 Basel Committee on Banking Supervision: formulate global banking supervision regulatory standards and aim to improve micro-prudential and macro-prudential banking supervision.
2 Committee on the Global Financial System: observe and analyze financial markets and its whole systems.
3 Committee on Payment and Market Infrastructures: formulate global regulatory standards for payment, settlement, and clearing.
4 Market Committee: observe new changes in financial markets and provide recommendations to central banks.
5 Central Bank Governance Forum: evaluate the design and operation of central banks.
6 Irving Fisher Committee on Central Bank Statistics: examine problems in statistical errors in monetary, economic, and financial indicators.

The Basel Committee of Banking Supervision (BCBS) was created in 1974 by the governors of the G10 countries in response to the turbulence in international currency and banking systems. Based at the BIS headquarters in the city of Basel, Switzerland, BCBS's objective is to embrace financial stability by enhancing the quality of banking supervision and to provide a forum for its members to discuss the issues relating to banking supervision. Since its establishment, BCBS's members grew from G10 countries to 45 authority bodies from 28 jurisdictions. The committee has produced a series of publications on banking issues about capital adequacy (Basel I, Basel II, and Basel III), accounting and auditing, core principles for effective banking supervision, money laundering and terrorist financing, disclosure, and transparency, etc. Policy decisions are established in the form of standards (set minimum requirements for members), guidelines (elaborate standard) and sound practices (analyze observed practices) (BIS 2019).

BCBS recognized the important role of an effective corporate governance system to the health of the banking sector and to the whole economy and to support pillar three (promote market discipline) of the Basel III, this being BCBS develops distinctive corporate governance principles that provide banks and banking supervisors a working framework to ensure strong and transparent decision- making and risk management. The BCBS's principles are recognized and derived from the OECD's principles, but they provide an addition focus on the risk governance of banks. Table 2.4 provides an overview of the BCBS's principles of corporate governance. (BCBS 2015)

Table 2-4. BCBS Principles of Corporate Governance. Source: BCBS (2015).

Principles	**Narratives**
I. Board's overall responsibilities	The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.
II. Board compositions and qualification	Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank.
III. Board's own structure and practices	The board should define appropriate governance structures and practices for its own work and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.
IV. Senior management	Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.
V. Governance of group structures	In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities. The board and senior management should know and understand the bank group's organizational structure and the risks that it poses.
VI. Risk management function	Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.
VII. Risk identification, monitoring and controlling	Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice.
VIII. Risk communication	An effective risk governance framework requires robust communication within the bank about risk, both across the organization and through reporting to the board and senior management.
IX. Compliance	The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.
X. Internal audit	The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank.
XI. Compensation	The bank's remuneration structure should support sound corporate governance and risk management.
XII. Disclosure and transparency	The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.
XIII. The role of supervisors	Supervisors should provide guidance for and supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management, should require improvement and remedial action as necessary, and should share information on corporate governance with other supervisors.

2.4.3 U.K. CORPORATE GOVERNANCE

History shows that Britain developed the first corporate economy and its corporate practices and company law has immensely influenced other capitalist countries, in particular, those of its colonies and common-law origin countries (Mallin 2010). The very first emergence of company law in Britain was developed in the mid-nineteenth century. It was built upon the notion that "the company is a private rather than public body, is functioned to maximize its owners' economic gain" based on "individualism and freedom of contract" (Mallin 2010). Therefore, it was a principle-agent based system where shareholders appoint agents to conduct business and management is overseen by the board of directors. The company law is reviewed and received recommendations for amendments about every 20 years. The latest reform was enacted in 2006 known as the "Companies Act 2006", and some new notable provisions are: duties of directors are now codified, enhanced shareholder's rights via more information and electronic communication, and an emphasis on shareholder responsibilities, in particular, urging institutional investors to utilize their resources to be more active in shareholding companies and to disclose the justification for their voting decisions (Wei 2003). It is worth mentioning that the U.K. had long used the one-tier board system and to strengthen its justification for the absence of the supervisory mechanism (exist in two-tier board), it embraced the practice of independent non-executive directors and independent auditors.

The most critical definer of the U.K. corporate governance model was the Principles of Good Corporate Governance and Code of Best Practice or Combined Code 1998 (later development was made in 2003, 2006 and 2008). The Combined Code 1998 was the combination of recommendations drawn from three separate reports: the Cadbury Report, Greenbury Report and Hampel Report (Wei 2003). The Combined Code was enforced on a self-regulatory regime on a comply-or-explain basis (the self-regulatory concept is discussed further in the Australian Corporate Governance section). The governance arrangement had undergone a number of committee's reviews and recommendations as regulators' responses to economics and financial crises. Table 2.5 showcases the development of corporate governance in the U.K.

Table 2-5. Corporate Governance Principles Development.

Year	Principles/reports	Narrative
1992	Cadbury Report	Originally address financial aspect, but extend to whole corporate governance matters
1995	Greenbury Report	Directors' remuneration package and disclosure
1998	Hamper Report	Review application of recommendations by previous committees
1998	Combined Code	Combined recommendations from previous 3 reports
1999	Turnbull Report	Provide guidance on implementation of combined code
2001	Myners	Review institutional investment
2003	Higgs Review	Review the role and effectiveness of non-executive directors
2003	Smith Review	Review the role of audit committee
2003	Combined Code	Revised 1998 version in respect to Higgs and Smith reviews
2005	Turnbull Guidance	Revised 1999 version
2006	Combined Code	Revised 2003 version
2008	Combined Code	Revised 2006 version

In respect to the banking sector, there are three primary regulatory bodies: the Bank of England (BOE), Prudential Regulations Authority (PRA) (a division of the BOE), and the Financial Conduct Authority (FCA) which supervise and influence bank governance practices (BOE 2019). The BOE's primary role comes into play in the event of resolution by direct intervention and exercise resolution powers. The FCA's aims are to oversee business conduct, ensure effective financial markets and competition and protect consumers primarily through its Principles for Businesses handbook which comprises 11 principles. The most important regulatory authority for banks is the PRA, which enforces bank governance through its alphabetically sorted rulebook. The rulebook contains provisions on all aspects of banking operations and is not categorized into any specific part. Some governance tributes are: general organizational requirements, audit committees, auditors, remuneration, fitness and propriety, public disclosure, etc. (BOE 2019).

2.4.4 U.S. CORPORATE GOVERNANCE

Adolf Berle and Gardiner Means's 1932 publication on "*The Modern Corporation and Private Property"* was the original point of interest on corporate governance in the U.S. (Plessis et al. 2015). The publication coincided with the formation of the Security Exchange Commission (SEC) (1932-1933) (Tricker 2015). SEC was set up after the collapse of the stock market in 1929 and the subsequent great depression of 1929-1930s. Its strong link to major financial crises and corporate governance became the central point of legislators and academics, resulting in a stream of publications (Plessis et al. 2015). According to Tricker (2015) and Plessis et al. (2015), the materials on the U.S.'s corporate governance were *extensive* in the academic literature and legislations.

Established in 1934, SEC was missionized to protect investors, develop fair and honest security markets, and to ease capital formation (Tricker 2015). The SEC has extensive authority at the federal level to police, oversee and regulate financial markets and remarkably, civil and criminal sanction to enforce the law (Plessis et al. 2015). Market participants overseen by SEC are security exchanges, investment advisors, security brokers and dealers and mutual funds (Tricker 2015).

One of the significant milestones in U.S. corporate governance is the Sarbanes-Oxley Act 2002 that was a response from the U.S. government to the infamous scandal and the collapse of U.S. gigantic corporations such as Enron, WorldCom, Tyco, Waste Management and one of the big five accounting firms and auditors Arthur Andersen (Tricker 2015). The Sarbanes-Oxley Act 2002 (which is a combination of the names of senator Paul Sarbanes and Representative Michael G. Oxley), also called *Sarbox*, is described as "*enormously consequential*" and is one of the most significant corporate governance legislations with strong civil and criminal sanctions to offending directors and managers (Plessis et al. 2015). Importantly, Sarbox is a powerful legislative instrument that is able to change the conventional view of discretionary corporate governance codes to law-obedience or rule-based (Tricker 2015). Plessis et al. (2015) pointed out that Sarbox was the turning point of U.S. and U.K. corporate governance foundation. U.S. is prescriptive, rule-based, and legality while the U.K. is non-prescriptive, principle-based, and self-regulated.

A few years after the implementation of Sarbox, U.S. corporations did not behave as expected, as shown by the 2008 financial crisis. The collapse of Lehman Brothers and the bailing out of too-big-to-fail corporations cost the U.S. taxpayers USD 700 billion and spread ripple effects to millions and even billion of lives in the world's economic system. To address the crisis, another federal legislation was introduced, the Dodd-Frank Wall Street Reform and the Consumer Protection Act of 2010. This law, also known as Sarbox 2, was intended to reinforce financial regulation and intensify the governance of the financial services industry (Tricker 2015).

In relation to corporate governance in financial and banking corporations, the U.S. seemed to lag behind other countries. One reason for this was the absence of the bank-supervisory authority's consolidated corporate governance principles/rules and its dependence on company law and relevance regulations instead. Scholars highlighted the fragility of the U.S. banking system as the industry was regulated by enormous state and federal regulations. In a speech at the Association of American Law Schools in 2004, Daniel Tarullo, a former member of the Board of Governors of the Federal Reserve, raised the question as to whether the general applicable corporate laws and regulations were sufficient to apply to banking entities of its unique capital structure (deposit-taking) (Tarullo 2004). The speech however did not answer the question.

2.4.5 AUSTRALIAN CORPORATE GOVERNANCE

The Australian corporate governance model, coined by Farrar (2005), was "*self-regulation penumbra*". Farrar (2005) classified three classes of Australian corporate governance regulations: hard law, hybrids, and soft law. The hard law he referred to, was the old black letter of the corporate law. The same as corporate law in other countries, some fundamental corporate governance mandates and sanctions were legislated in corporate law ranging from the duties and liabilities of directors, shareholder rights and treatments, and transparent and accountable financial reporting (Plessis et al. 2015). The hybrids category came somewhere between the legal mandatory and full-voluntary practices. It was privatized and delegated power to private-sector bodies to enact rules and legal sanctions (Plessis et al. 2015), for instance, the ASX corporate governance principles and recommendations. There was a contradictory view on the placement of ASX corporate governance principles and recommendations under hybrids and soft law. Plessis et al. (2015) treated the principles as hybrids due to the explanation that the listed company was bound to abide to the principles or else it would technically breach the listing rules and face sanctions (the most severe being that it could be delisted from the exchange on the grounds of non-compliance). Farrar (2005) saw the principles as soft law due to his explanation that ASX principles operated under a "comply or explain" basis. Listed companies were obligated to abide by the ASX principles or else explain the reason for non-compliance in their annual report., Farrar (2005) rationalized this "if not, why not" approach to the prescribed corporate governance principles separately from listing rules. Perhaps this is the reason for the different view from Plessis et al. (2015). The last is soft law, which relates to absolute voluntary practices codes and guidelines as well as scholarly writing that influences internal control and management toward best corporate governance and does not attach any sanction to it (Plessis et al. 2015). Examples of soft law are the Financial Service Council's Blue Book on Corporate Governance (a guide for fund managers and corporations), Standard Australia's corporate governance standards, the Bosch report Corporate Practices and Conduct and Fred Hilmer's Strictly Boardroom.

Farrar (2005) description of Australia's self-regulated corporate governance system was largely based on the social and legal study of Ayres and Braithwaite (1992) Responsive Regulation. Ayres and Braithwaite (1992) transcend the deregulation debate. They infused the concept of a self-regulated regime which can be understood from their famous pyramid of regulatory strategies and enforcement strategies (Figure 2.4 & 2.5). Self-regulation according to Farrar (2005) was a new regulatory state and a form of privatization that was too early to say whether it was a success or a distractor.

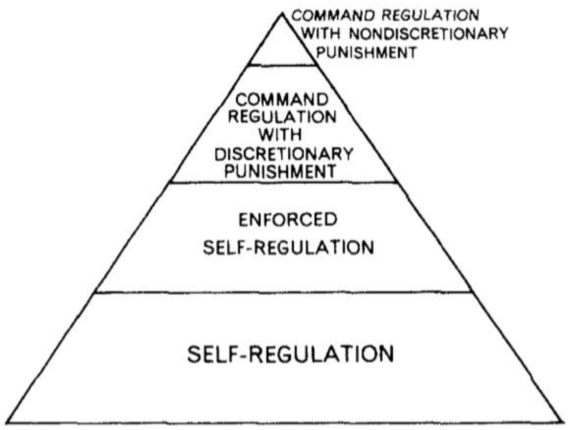

Figure 2-4. Pyramid of Regulatory Strategies. Adopted from: Ayres & Braithwaite (1992).

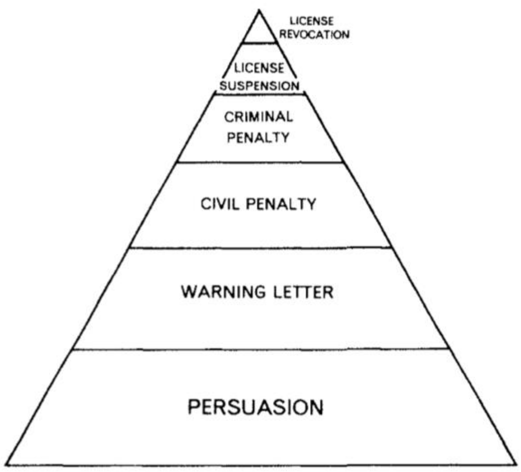

Figure 2-5. Pyramid of Enforcement. Adopted from: Ayres & Braithwaite (1992).

In relation to the banking industry, there are three important bodies that oversee certain aspects of corporate governance. The Australian Securities and Investments Commission (ASIC) mainly relies on the Corporate Act to strengthen the banks' corporate governance with the objective of maintaining and promoting market discipline. ASX imposed the Corporate Governance Principles and Recommendations on those listed banks which apply equally to all listed companies. Lastly, the Australian Prudential Regulation Authority (APRA) emphasized the sound operation of individual bank and banking system as a whole. APRA's tools to ensure good governance practices are (APRA 2019a):

1. Prudential Standard CPS 510 Governance: set out minimum principles for good governance.
2. Prudential Standard CPS 520 Fit and Proper: set out minimum requirements in selecting individuals to positions of responsibility, such as directors, senior managers, auditors, and a person who manages subsidiaries.
3. Prudential Standard APS 310 Audit and Related Matters: set out fitness and propriety of auditors and their minimum role and responsibilities.
4. Guidance - Aid for Directors of Authorized Deposit-taking Institutions and Insurers: guide directors to understand their responsibilities under the APRA imposed prudential framework.
5. Prudential Practice Guide PPG 510 Remuneration: guide institutions to prudently manage risks that may emerge from remunerations strategies.
6. Prudential Practice Guide APG 520 Fit and Proper: a guide to the practice of CPS 520 (former APS 520).

2.5 CORPORATE GOVERNANCE CONVERGENCE AND DIVERGENCE

In an era of rising globalization of the international economy, a growth in cross-border mergers and acquisitions, and the establishment of common economic unions (EU and ASEAN), academics had gathered to solve the question as to whether a common corporate governance system is effective in reinforcing solidarity and bringing about a competitive advantage to individual countries (Cernat 2004). A number of prominent scholars (Branson 2001; Cheffins 1999; Cunningham 1999) of the convergence view provided empirical evidence of the transformations. They also seek to solve the research question of what option yields the optimal outcome, for example either to focus on a hybrid model (combining the best and second-best systems) or converging wholly to (what is thought to be) the best system (Cernat 2004).

Some convergence proponents such as Henry Hansmann and Reinier Kraakman made claims as to the converging path of the world unitary vision of corporate law toward the direction of the Anglo-American model on the premise of a shareholder-centered ideology. Their work was compromised by a real-world event, as their publication coincided with the collapse of Enron. Whether the Anglo-American model was more economically efficient and sustainable over other models was the question. The skepticism was prolonged, which make it impossible to debate Hansmann and Kraakman's claim.

Concerning Asian countries, researchers clarified several specific issues of corporate governance in the region while other issues remain unsolved and unsurprisingly, the matter of convergence continued undebated (Claessens & Fan 2002). According to (Claessens & Fan 2002), most challenges which held back the research on the Asian region arose because of data availability problems and they called for a systematic data collection by researchers and corporate governance research centers in the region to collate and publicize governance-related data. Some argued that the focus should be on the development of good governance itself due to the infancy of capital market development in most countries in the region, however one should also bear in mind the establishment of the common economy union (ASEAN) that aimed to increase growth and inclusiveness through the harmonization of regulatory frameworks.

Nevertheless, casting aside these debates on governance convergence views, we turn our attention to world standard setters. Corporate governance convergence efforts have existed since 1999, when the World Bank and the OECD together created the Global Corporate Governance Forum that aimed to improve global corporate governance practices (Guillen 2000). The initiative was believed to have an influence on the corporate governance system of less-developed countries to move toward consistency with the practices of free capital markets and prioritized the matter of maximizing shareholder value (Guillen 2000). It was fueled by the growth in foreign direct and portfolio investments from market-based system countries such as the United States and the United Kingdom (Guillen 2000). Nevertheless, the initiative recommended more transparent practices rather than uprooting long-standing practices.

Despite a number of convergence proponents, some scholars raised evidence-based arguments on the diverse path of corporate governance practices. The following sections discuss the enablers and barriers that convergence proponents and distractors used to explain their views. As mentioned in the external corporate governance mechanisms section, those forces as identified by Keong (2002) are legal aspects, political influence, cultural traits and economic aspects. Nevertheless, the following literature review encompass within these premises but not limited to the mentioned elements.

2.5.1 LEGAL AND OWNERSHIP STRUCTURE INFLUENCE

In a series of publications, La Porta and colleagues expressed a deep interest in the pattern of corporate ownership around the world and the level of protection that investors receive in different legal systems. From the corporate governance convergence point of view, they argued that there is a diversity of corporate governance models in different jurisdictions resulting from the attempt by investors to surmount poor legal protection. The claim was rationalized in two of their publications. First, in an article titled “Law and Finance”, they compared investor legal protection in nearly 50 countries and found that legal rules pertaining to shareholder protection are different across countries (LaPorta, Silanes & Shleifer 1998), for example, being a shareholder in Japan entitles an investor to a very different set of rights to those in Germany. For instance, countries with an English-origin common law system (such as Australia, Canada, Singapore, United States, UK, etc.) tended to have stronger investor protections and thus a dispersed ownership structure than countries with a French-origin civil law system with weaker protection and concentrated ownership (such as Brazil, France, Italy, Mexico, Spain, etc.) (LaPorta, Silanes & Shleifer 1998). Second, in a study of corporate ownership around the world, LaPorta, Lopes-de-silanes and Shleifer (1999) explored the pattern of corporate ownership in the 27 richest economies. He asserted that there are relatively few corporations which are widely held by the public. Most of these corporations were typically held by the state or families, and the equity control by financial institutions is not as common as found in previous studies. The concentrated ownership allowed shareholders to have significant power in the firm through a hierarchical corporate structure and active participation in management (LaPorta, Lopes-de-silanes & Shleifer 1999). Last, in their article entitled “Investor protection and corporate governance”, they concluded that the nature of investor protection depends on the legal structure in each jurisdiction and the legal-origin of its laws (LaPorta et al. 2000). They also stated that existing investor protections mechanisms benefit politicians and entrenched economic interests and implied the need for major reform toward a more protective legal regime, which although difficult, was politically feasible (LaPorta et al. 2000). Stronger investor protections generally corresponded to more effective corporate governance (LaPorta et al. 2000).

O'Sullivan (2000) looked at the role of institutional investors as an indicator of enabling force. She viewed that the presence of institutional investors imposes pressure on a company to converge to the Western system which requires a more transparent and shareholder-friendly model. Further, she explained that the common view is that if corporate executives resist the demand for higher returns to shareholders, institutional investors will not invest in the corporation shares, resulting in the corporation being short of capital that ultimately results in being defeated in the globalized competitive market (O'Sullivan 2000).

As mentioned in the previous section, one of strident noises on a single standard practice came from Hansmann and Kraakman (2001), eminent law professors of Yale Law School and Harvard Law school, respectively. As explained in their essay, the standard corporate law was built upon the common corporate form which is characterized by five core functional features: full legal personality, limited liability for shareholders and managers, share ownership by capital investors, delegated management under a board structure, and transferable shares. They claimed the convergence of corporate law was toward the Anglo-American shareholder-centered model. There were three ideological forces driving consensus toward standard corporate law. The first referred to the failure of alternative models including manager-oriented, labor-oriented, and state-oriented models. The manager-oriented model gave too much discretion to managers to serve their own interests disproportionately instead of the expected role of disinterest in technocratic fiduciaries, the labor-oriented model proved to be inefficient in relation to collective unionism and employee participation on the board in some cases, and the state-oriented model where the government has a direct influence on corporate affairs such as the allocation of credit, foreign exchange, license, empowering directors, etc. came to nadir since the departure of socialism in general and the sudden collapse of communism in the 1990s (Hansmann & Kraakman 2001). The challenge of this ideology of crowded possibilities of alternatives was to drag mass consensus to the conditions it claimed to exist. Nonetheless, this was not an isolated approach to convey convergence ideology. McDonnell (2002), a scholar who saw the possibility but was opposed to convergence, also believed that the American model works better and countries with other systems are in the process of shifting toward the American model. With this assumption, he further posed the question as to why countries persisted for so long in their benighted systems and what form of convergence they will take to move toward the U.S. model (McDonnell 2002).

The second was driven by economic forces that made the shareholder-centered model more salient. These economic forces were characterized by the force of logic, force of example, and force of competition. The force of logic refers to the scholarships and publications of law, economic and business that provided conclusive evidence on the significant efficiency of the shareholder-centered model over others and also, it has been widely recognized and diffused by networks of corporations, international law and accounting firms, big banks and consulting firms that logically denoted the superiority of the shareholder-centered model. The force of example was explained by the economic performance of countries dedicated to the model. The example given is that the U.S. has delivered better economic outcomes compared to European and Asian countries which are less aligned with the shareholder-centered model. The force of competition referred to the competitive advantage of shareholder-centered firms over firms from jurisdictions aligned to other models. The advantage is due to access to international capital at a lower cost, the aggressive development of new markets, and responsive action to inefficient investment (Hansmann & Kraakman 2001).

The last was the shift in the interest group in favor of the emerging shareholder class. Traditionally, a small group of wealthy elites' own company stocks, but as witnessed in the U.S., share owners have become pervasive since the start of the twentieth century, fueled by the pension fund system. In addition to the U.S., countries such as Germany and Japan which had a similar level of capital market development also experienced a rise in the shareholder class. The bourgeoning shareholder class was not in itself a phenomenon of increasing stock ownership, rather it represented a shift toward protectionism of minority and non-controlling shareholders over managers and major interests. These practices in turn moved toward the single standard of Western-based corporate governance for which Hansmann and Kraakman (2001) campaigned. Nevertheless, the emerging shareholder classes and debates over minor interest protection assisted in spurring the tenet of the shareholder-centered model (Hansmann & Kraakman 2001).

Hansmann and Kraakman (2001) also identified the weak forces of corporate law convergence that had an insignificant influence at the time of their study, such as harmonization and competition for charters. For instance, according to Hansmann and Kraakman (2001), in the E.U., corporate law convergence was seen to avoid the standard model rather than embrace unionism. Also, competition among the state jurisdictions for corporate charters could result in a desired rules of law model that was unlikely to happen but if it did, it could be a very powerful force.

2.5.2 POLITICAL IDEOLOGIES AND INTERESTS

Guillen (2000) viewed that the political interests of individual countries play a role in mediating the relationship between external trends and outcomes. Or so to say, domestic political positions and interests affect the convergence process of corporate governance and globalization at large. Djelic (1998) gave the example of German and French politicians, labor leaders, and industrialists in the 1950s resisting the adoption of the practices of American corporate governance and industrial blueprints. Rather, they shaped and molded the American models using the priorities and interests of their own through the mutual agreement of the domestic actors, such as regulators, executives, employees, etc. (Djelic 1998). Also, in the 1990s, the U.S. provided a compelling example showing that the role of political interests mirrored via their stance in debates, shapes the corporate governance path. An intense debate developed in the U.S.'s corporate world between managers, economists, and legal experts (proponents of separation of ownership from control) and institutional investors who disagreed with the idea of giving managers too much discretion (Guillen 2000).The outcome is yet to be realized (at that time) but it is certain that amid the uncertainty, top executives are under the spotlight but stand to benefit as reflected through their generous compensations scheme (Guillen 2000).

When analyzing the political capability of corporate governance, one should not overlook Roe's (2003) view that corporate governance diffusion will not occur even in the case of recognized high-quality corporate law. He asserted that the forms of corporation in the globalized economy sharply vary and are influenced by political forces in a different way in different countries (Roe 2003). Roe (2003) view is distinctive as he believes the role of politics continuously influences the practice of corporate governance. Other such as LaPorta, Lopes-de-silanes and Shleifer (1999) focused on the role of politics in the elementary choice of a legal system (common or civil) that defines corporate law more accurately rather than its ongoing influence on the operation of the legal system and corporate governance in particular

(Gourevitch 2003). To put things in perspective, Roe (2003) investigation showed that national politics interact with corporate governance arrangements through variables such as political forces, party systems, political institutions, political orientation of governments and coalitions, ideologies, and interest groups. He found that these elements are the main determinants of shareholder concentration and the relationship among shareholders, executives, employees, and stakeholders. For instance, his central political variable is social democracy. He found that in a jurisdiction of a strong social democracy, there is a tendency for low shareholder concentration and weak shareholder rights, in contrast to where social democracy is weak and shareholder diffusion is strong (Roe 2003). This is because in a strong democracy, representatives or unions from a company and stakeholders have freedom to negotiate issues such as employee job security, more equitable income distribution, social welfare and social stability, a demand for nationalism, domestic versus international developments, etc. (Roe 2003). Also concerning shareholders, he explained that a "democratic polity does not easily accept powerful pro-shareholder institutions" (Roe 2003). He provided an example of the traditional U.S. view that limits the power of pro-shareholder institutions through the opposing idea of hostile takeover. Another compelling political explanation is the efficiency of stability. He argued that the optimal corporate governance structure does not only depend on the internal technocrats, but also relies on the condition of political stability. Catastrophes in a capitalist economy that result from social turmoil such as rioting, strike, civil war, unrest, political chaos, and unstable government are strongly linked to political conditions (Roe 2003). The rationale behind this explanation is that investors and company managers make business decisions based on risks that fundamentally derive from the degree of predictability and certainty.

2.5.3 CULTURAL TRAITS

Of similar importance to Roe's (2003) work on how political factors impact on corporate governance was Licht (2001) quest to uncover the relevancy of a country's culture to corporate governance. He stated that there was a lack of effort to determine the importance of cross-cultural dimensions to corporate governance practices and hence there was an urgent need for academic study on the issue. In his study, he produced culture value dimensions (CVDs) drawn from a framework of cross-cultural psychology that delivered testable hypotheses on the cultural features of corporate governance. Rather than answering any particular question, his work concluded with a statistically backed-up framework that showed the relevance of cross-cultural values to seven features of corporate governance. He borrowed the culture dimensions frameworks from Hofstede and Schwartz's (2000) framework of culture dimensions which composed of power distance, individualism and collectivism, masculinity and femininity, and uncertainty avoidance. The framework focused on: embeddedness and autonomy, hierarchy and egalitarianism, and mastery and harmony. Licht (2001) associated these dimensions to seven corporate governance mechanisms namely: preliminary choice that societies chose to conduct business via large public companies, shareholding structures, self-dealing regulations, insider trading regulations, executive compensation, disclosure regulations, and other issues. He asserted that there is an increasing concern by theorists, regulators, and practitioners on the relevancy of cultural dimensions and corporate governance (Licht 2001). This reflects a diversity of corporate governance practices as to the variety of uniqueness of individual cultural values.

In relation to the cross-cultural implications of corporate governance, Keong (2002) stated that advocates and opposers of the U.S. corporate governance convergence seem to overlook the role of culture, as there is almost an absence of discussion on how an individual country's cultural traits influence the form of corporate governance. Beneath the legal structure, economics system, and other institutional factors, culture as a norm, process and tendency cultivates and regulates a particular form of the system (Keong 2002). This is a good argument for corporate governance diversity. An example given by Keong (2002) is the case of the majority-accepted diffused American's shareholder-centered model of majority independent board members and strong individualistic behavior. By law, the board of directors is presumed to approve managerial decisions/actions unless there is dissent in the board meeting as reflected via a minute of the meeting. Hence, directors in the American system tend to express their objections promptly and clearly and the practice is commonly exposed to a series of shareholder litigations. Keong (2002) provided two compelling arguments. First, the practice is completely opposed to the Confucius value of the Chinese system. The Confucians are principled with an ideology that a person must fit in and conform to the basic social order. The Chinese order is highly hierarchical and is built upon selflessness and self-denial. Therefore, it is very difficult to reconcile the concerns of directors through American practices. The second refers to the reality of the dominant corporate form in a number of big economies. Several influential studies, for example LaPorta, Silanes and Shleifer (1998), revealed that despite the development of equity markets and the spread of capitalism, highly concentrated family-owned corporations or so called family capitalism, are still the case. The appointment of independence directors in accordance with American model would undermine the family influences on major corporate decisions. The willingness to relinquish corporate power is unlikely even if some agreed to the appointment of independent directors.

2.5.4 ECONOMY AND INSTITUTIONAL FACTORS

With the growth of global foreign direct investments and portfolios, as well as the increased number of powerful multinational corporations, less developed countries and those receiving funds tend to adopt the corporate governance practices of the countries from where the funds originate (Guillen 2000). Guillen (2000) measured the pressure toward corporate governance homogeneity through direct investments and portfolio investments. The money managers and financial experts in globalized financial investment prefer companies to be practical and adapt to international standards on shareholder rights, shareholder value maximization, and be transparent in relation to financial results and activities (Guillen 2000).

Bebchuk, Lucian and Roe (1999) explained the path-dependent way of corporate governance that was driven by the institutional approach. Countries and firms pursue different competitive strategies in the global economy that involves their unique institutional approach that involves a different corporate governance system. For example, Japan's Keiretsu model enables the borrow, improve, integrate ideas and technologies approach which empowers them to advance in assembled goods like consumer electronics, automobiles, home appliances, etc. German's Technik allow companies to advance into high quality and intense engineering that makes them dominant in the market of automated tools, high-end automobiles, and specialty chemicals. France's model of elite engineering allows them to lead in large-scale technical production such as satellite launching rockets, nuclear power, etc. The American approach focuses on individualism, entrepreneurs and customer satisfactions which gives it a world-class competitive advantage in relation to the provision of goods and services.

Likewise, institutional complementarities, a term coined by Clarke (2007b), embeds a view of corporate governance diversity. Clarke (2007b) stated that adopting and implementing some of the formal elements of corporate governance from one system into another may result in critical problems, given that corporate governance features are contextual and differ by activities and industries. In this regard, a system of optimal corporate governance must not consider only the finance, legal, and ownership structure but should complement certain conditions of the institutions such as labor relationships, compensation schemes and so on

(Clarke 2007b). In a bigger sphere, it is questionable whether one country can borrow a system or any particular practice from another and expect it to yield the same outcomes as it originally did. Clarke concluded that the particular characteristics of each individual institution may impede the system or reverse corporate governance convergence (Clarke 2007b).

2.5.5 EXAMPLE FROM THE EUROPEAN BANKING UNION'S SINGLE CORPORATE GOVERNANCE STANDARD

The Global Financial Crisis of 2008 and the subsequent Eurozone sovereign debt crisis led to the creation of the European Banking Union with the goal of transferring the responsibility on monetary policy from the country level to the EU level and to apply consistent EU banking rules overseen by the European Central Bank (ECB 2018a). The application of EU banking rules is fundamentally executed to promote European banking unification by "treating national and cross-border banking activities equally" (ECB 2018a). To achieve this goal, several reforms have been made to the EU banking system in which two establishments are seen to be the driving forces. First, the European Banking Authority (EBA) was established as an independent regulatory authority of the European Banking Union in 2011, headquartered in London but in 2019 moving to Paris due to BREXIT (EBA 2018a). It inherited the roles and responsibilities from the Committee of European Banking Supervisors. The most important role of the EBA is to institute and periodically revise, the European Single Rulebook in Banking which aims to provide a single set of harmonized prudential regulations for financial institutions across the EU (EBA 2018a). Currently, banking practices in the EU are based on the rules and guidelines of the single rulebook (EBA 2018a). The second establishment is the Single Supervisory Mechanism (SSM), a new banking supervision system in the EU. The SSM comprehended ECB and the national supervisory authorities, taking responsibility for supervising 118 significant banks in the EU that accounted for 82% of banking assets in the Eurozone (ECB 2018c). The other 6,000 Euro area non-significant banks are supervised by the national authority and EBA has the power to take over the supervision of any bank at any time (McPhilemy 2014). The SSM conducts banking supervision through the single standard supervisory framework referred to as the Supervisory Review and Evaluation Process (SREP) which follows the guidelines set out by the EBA (ECB 2017). The SREP provides supervisors with a set of harmonized tools to review and evaluate banks in four principle elements: business model, governance and risk, capital, and liquidity (ECB 2017). (Refer to appendix A for further legal instruments impacting the integration of E.U. financial and banking sectors starting from the first Banking Directive in 1977).

As explained, the unification of the European banking system is explicitly based on a single set of rules and a single standardized supervision framework of ECB. For instance, the practices of the internal governance of banks in the Eurozone followed the universal guidelines such as: Guidelines on Internal Governance, Guidelines on the Assessment of the Suitability of Members of the Management Body and Key Function Holders, and Guidelines on the Remuneration Benchmarking Exercise, and Guidelines on Outsourcing Arrangement (EBA 2018b). Table 2.6 summaries all the relevant guidelines and their publication date of the latest revised version.

Table 2-6. European Banking Authority's Guidelines Pertaining Internal Governance. (Author's compilation)

EBA's Internal Governance guidelines	**Publication date (latest version)**
Guidelines on Outsourcing Arrangement	25th February 2019
Guidelines on Internal Governance	21st March 2018
Guidelines on the Assessment of the Suitability of Members of the Management Body and Key Function holders	21st March 2018
Guidelines on the Remuneration Benchmarking Exercise	16th July 2014
Guidelines on the Data Collection Exercise Regarding High Earners	16th July 2014

2.5.5.1 WHY A SINGLE STANDARD?

Annually, the European Central Bank publishes a report titled Financial Integration in Europe to address the development of E.U. financial integration and relevant policies, the latest version being reported in May 2018 (ECB 2018b). As reflected in the report, financial integration fosters a smooth and balanced transition of monetary policy across the euro area that ultimately scores the objective of completing the EU single market. According to the ECB, a fully integrated financial market refers to a market where participants with a given set of financial products and services have the same relevant characteristics in (ECB 2018b):

1 Face a single set of rules
2 Have equal access to financial products and services
3 Treated equally when they are active in the market.

This explains the reason behind the harmonization of E.U. financial and banking policies as well as the architecture of the E.U. Banking Union and the soon to be established E.U. Capital Markets Union (ECB 2018b). In terms of banking policy harmonization, as previously mentioned, the European Banking Authority plays a main role in the creation of a single rulebook in banking with the aim of providing a harmonized set of prudential regulations for banks across the E.U.

Before the Global Financial Crisis, directives and national rules were the legal instruments to regulate the banking industry. Cross-border businesses faced severe regulatory burdens. Directives and national rules together created room for potential divergence that resulted in different interpretations of those rules and uncertainty, allowing banks to exploit regulatory loopholes, distorting competition, and undermining market discipline. Furthermore, the ECB realized that it had lost control of the system during the GFC due to uncoordinated banking regulations across the E.U. and led to significant ripple effects throughout the system. Therefore, policy makers started working toward shaping a single rulebook that applies to all banking institutions in the E.U. by using exactly the same definition of regulatory aggregates (EBA 2018a). It therefore ensures that cross-border banking institutions do not have to comply with as many as a 28 set of rules.

2.5.5.2 THE EFFECTIVENESS OF A SINGLE STANDARD

The implementation of a single prudential and governance regulations rulebook that aims to apply equal rules to banking institutions across all countries is a relatively new phenomenon in the E.U. banking industry despite significant efforts to level the playing field since as early as 1977 with the first Banking Directive to remove obstacles to the provision of banking services and the establishment of branches of E.U. members states. There were still national rules that interfered with the mission. The empowered policymaking and supervision roles of ECB through the single rulebook and single supervisory mechanism as explained above made it a more level playing field and enhanced supervisory capability. With the introduction of a single rulebook, there was uncertainty over its effectiveness to achieve the aim and unfortunately its infancy existence resulted in very niche published academic studies. Babis (2015) examines the prudential aspects of the harmonized E.U. banking regulatory framework with the aim of finding out if the single rulebook is truly applicable and to identify threats to it. His study concluded with a call for a more robust single rulebook and the reinforcement of the EBA (Babis 2015).

McPhilemy (2014) studied the integration of prudential regulations (single rulebook) and the supervision of E.U. banks. He found that the preceding European regulatory frameworks that provided implementation discretions at the national level resulted in the decentralized implementation contributing to the partial disintegration of the E.U. financial service single market. He supported the single rulebook and single supervisory mechanism which together reduced the home bias implementation of European standard rules. He then described the reform as a shift toward an idealized end-point of outright supranational governance (McPhilemy 2014). However, some provisions were not strictly enforced due to the diverse nature of national banking systems. For example, in line with the maximum harmonization principle (as opposed to the minimum harmonization principle set out in the 1985 White Paper on the fundamental principles for single markets in financial services that requires member states to adopt a set of common basic regulations), the Capital Requirements Regulation (CRR) does not require transposition into a nation rulebook. The CRR (together with the Capital Requirements Directive – IV) which exercises the implementation of Basel 3 into E.U. legislation, provides more than 140 provisions that enable the national authority to exercise discretion (McPhilemy 2014). Examples of these provision are as follows: national authorities are to set a countercyclical capital buffer and systemic risk buffer both of which can be up to 2.5 percent of risk weighted assets; and national authorities can impose a range of macro-prudential tools as they see fit (McPhilemy 2014). Therefore, McPhilemy (2014) questions why the new framework (single rulebook and SSM) should be more successful than the previous ECB efforts. Furthermore, the supervisory convergence remains unbinding and EBA's resources are dependent on the ECB and the Bank of England (McPhilemy 2014).

2.5.5.3 EFFICIENCY OF E.U. BANKING INTEGRATION

We now examine the overall positive impact of banking system integration. As previously mentioned, it is a conventional view of policy makers and regulators that E.U. financial integration is mandatory to achieving an E.U. single market and in particular, it will increase the economic efficiency of all member countries (Casu & Girardone 2010). Nevertheless, this belief without being backed up by empirical evidence is not well accepted in the academic sphere. Numerous academic studies address whether financial integration and banking system integration in particular result in economic efficiency or otherwise. Some of the studies are described as follows.

Using dynamic panel data models and data envelopment analysis (DEA), Casu and Girardone (2010) attempted to evaluate the bank cost efficiency of the E.U.'s 15 largest depository institutions from the period of 1997 to 2003. They found that there is convergence of efficient levels toward the E.U. average, however there is no evidence of an overall efficiency improvement toward best practice (Casu & Girardone 2010). In other words, countries that lag behind are gaining efficiency convergence to the level of more cost-efficient countries. Likewise, Kasman and Kasman (2013) studied the convergence of cost and profit efficiency levels among all E.U. members and three candidate countries (Croatia, Macedonia and Turkey). They asserted that there is a convergence in both cost and profit efficiency and newer E.U. members and candidate countries stand to gain the most from efficiency convergence. In a similar study, Weill (2009) measured the cost efficiency of banks in ten of the older E.U. countries during the period from 1994 to 2005. The empirical evidence also supports the convergence of cost efficiency in banking institutions. Also, Mamatzakis, Staikouras and Filippaki (2008) studied the cost and profit efficiency of banks in ten E.U. countries for the period from 1998 to 2003. Similarly, their findings support the convergence of cost efficiency across the countries, but different to Kasman and Kasman (2013) result, Mamatzakis, Staikouras and Filippaki (2008) found no convergence in terms of profit efficiency.

It appears that all the academic studies above provide empirical evidence for the support of the process of banking system integration in the E.U. despite some variations in terms of convergence on profit efficiency.

2.5.5.4 THE BARRIERS TO E.U. BANKING INTEGRATION

Despite having a clear objective to moving toward a single E.U. financial market and sustained legislative effort at the E.U. level, there are still potential barriers to sector integration. Berger, Deyoung and Udell (2001) named a few of these barriers, such as headquarters and branch or subsidiary geographical distance, language differences, cultural norm differences, regulatory and supervisory structures, and explicit or implicit rules against foreign competitors. Buch and Heinrich (2002) also shed light on explicit and implicit regulatory barriers. There are still substantial indirect barriers to full E.U. single financial market integration, according to Buch and Heinrich (2002). Despite significant efforts to level the playing field for cross-border operations, countries still retain a domestic flavor in regulating national financial markets and more problematically, countries tend to shield local financial institutions against pressure from foreign competitors. With reference to U.S. interstate banking sector integration, Buch and Heinrich (2002) implied an appropriate response to the problem might be deregulation and the removal of restrictions at a national level. Other academics like Barros et al. (2005) looked at barriers to E.U. financial market integration, specifically at the retail banking level and identified these barriers, such as the problem of consumers’ trust and confidence in foreign banking products and services, and the local bank’s specialty in accessing the private creditworthiness of clients which creates an economic rent issue in favor of local banks.

2.6 SUMMARY

The usage of the term "corporate governance" as a phenomenon emerged over the last two decades. There are numerous ideological theories and specific corporate issues which fall under the context of today's corporate governance definition ranging from almost a century ago. A materialistic reference can be found in Berle and Means's publication. After conducting a literature review on corporate governance which included several relevant reports, it remains difficult to define corporate governance. Corporate governance presented itself initially as a "nexus of contract" and evolved quickly in response to changes in societies, economies, cultures, legal systems, politics, and institutions.

For the purpose of this research, corporate governance is based on stakeholder theory which emphasizes the importance of three corporate governance attributes (shareholder, board of directors, and disclosure and transparency). Also, the study draws on the definition of bank governance given by BCBS in its Guidelines of Corporate Governance Principles for Banks as "*a set of relationships between a company's management, its board, its shareholders, and other stakeholders which provide the structure through which the objectives of the company are set, and the means of attaining those objectives are monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made*" (BCBS 2015). This led to research sub-questions number one (what are the present rules on shareholder's rights; board of directors' responsibilities, expertise, composition and remuneration, and disclosure and transparency?) and number two (what are the compliance levels to the BCBS's bank governance principles?).

Previous studies focused intensely on the corporate governance of general corporations in Western countries, generally in the relationship between its structure and organization with the organization's efficiency and profits. There were also strong debates in the literature on the convergence path of global corporate governance, with a particular focus on the adaptation of Western standards. On the other hand, there was very niche interest in corporate governance in the Asian region and especially on ASEAN and corporate governance in its banking sector. Despite its pre-mature financial-sector development, member of ASEAN countries ignites their efforts (further explained in chapter 3) in developing and regulating corporate governance, especially within the framework of their financial sector integration initiatives. Given the limitations of previous research in the literature and taking advantage of current arrangements, this study utilizes the theoretical foundations identified in the literature review to fill in this gap. In terms of corporate governance convergence, Table 2.7 summaries the views in the corporate governance literature that are part of the research framework (some other factors mentioned in the text above were not included in the research due to their lack of significance to the research background and relevancy to the ASEAN banking context). The framework comprises the premises of legal systems, political ideologies, cultural traits, and economic and institutional factors. The study uses the driving forces of convergence and divergence theories listed in Table 2.7 to assess the likelihood of ASEAN bank governance convergence that is represented in research sub-question number three (do the relationships between corporate governance convergence theories with ASEAN data support the adoption of a single standard?) and research sub-question number four (what is an appropriate convergence alternative?). For instance, given the profile of the presence of institutional investors in the ASEAN banking sector, what did the theory from previous studies suggest on the direction of ASEAN governance convergence? Each driving force is examined, and various indications are given as to the likelihood of ASEAN bank governance convergence.

Table 2-7. Theories of Corporate Governance Convergence.

Corporate governance convergence theories		
Scholars	**View**	**Driving forces**
O'Sullivan (2000)	Converge toward Western system	-Presence of institutional investors
Guillen (2000)	Converge toward shareholder-centered model	-Inflow of FDIs
Hansmann and Kraakman (2001)	Convergence of corporate law toward shareholder-centered model	-Failure of alternatives (manger-oriented, labor-oriented, and state-oriented) -Economics forces (force of logic, examples, and competition) -Shift in favor of emerging shareholder class
Corporate governance divergence theories		
Scholars	**View**	**Driving forces**
LaPorta, Silanes and Shleifer (1998)	Ownership concentration varied across countries	-Surmount poor investors legal protection
Bebchuk, Lucian and Roe (1999), and Clarke (2007b)	Path-dependent way (institutional approach) of corporate governance	-Pursue different competitive strategies -Differences in corporate identity
Roe (2003)	Corporations are shaped by political interest	-Against - hostile takeover (diverge from shareholder-centered model) -Strong social democracy has a tendency of low shareholder concentration and weak shareholder rights
Licht (2001) and Keong (2002)	Strong relevancy of cultural dimensions and corporate governance and thus corporate governance diversity	-Variety of uniqueness of individual cultural value - Confucius value of the Chinese system - the reality of the dominant family-capitalism corporate form

CHAPTER 3 RESEARCH CONTEXT – ASEAN, BANKING AND ASEAN SINGLE GOVERNANCE STANDARD

3.1 INTRODUCTION

ASEAN integration which aims for the establishment of the ASEAN community comprises three pillars: ASEAN Political-Security Community, ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASEAN 2015a). The AEC integration that started in 2015 is believed by economists to have a profound effect on regional growth and spurs the growth of member countries through capital account liberalization, capital market development, and financial services liberalization (ASEAN 2015a). Among other initiatives of AEC integration, the ASEAN Banking Integration Framework (ABIF) was initiated to facilitate capital market development and financial service liberalization (ASEAN 2018a). Banks are expected to operate freely and receive the same and equal treatment as local banks in ASEAN countries (ASEAN 2018a). However, the difference in the development level of a single member's banking system and the absence of standardized principles such as bank governance principles, restrain the integration (ASEAN 2018a). In a quest to access the value of a single standardized ASEAN banks' corporate governance principles, this chapter provides prerequisite understandings of ASEAN corporate governance in the banking system.

The first section of this chapter provides an overview of the ASEAN background and its important milestones. This is followed by an exploration of each specific ASEAN country's legal system, banking structure, banking monitory bodies, and rules and regulations pertaining to the corporate governance of banks. Following is a general review of corporate governance practices in ASEAN and it points out the influential academic institutions and other organizations that shape the common perceptions of good governance. The next section overviews the structure of the ASEAN banking system, the importance of cross-border operations, and the risks and barriers to ASEAN banking integration in particular. The last section is the summary.

3.2 BACKGROUND OF ASEAN

3.2.1 HISTORY OF ASEAN

ASEAN was established with the signing of the ASEAN Declaration (or Bangkok Declaration) on 8th August 1967 by five founding members: Thailand, Indonesia, Malaysia, Philippines, and Singapore. The ASEAN Declaration was a two-page document comprising five articles which aimed to achieve cooperation in economic, culture, social, education, technical and other fields and to maintain regional peace and stability in respect to the principles of the United Nations Charter. Under the fourth provision, the association is open to all South-East Asian region countries and thus binds them to its shared aims, principles, and purposes. In 1984, Brunei Darussalam joined the association followed by Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999, making it a ten-member association today (ASEAN 2019b).

In 2003, the ASEAN leaders determined that the ASEAN community should be established and at the 12th ASEAN submit in 2007, they affirmed strong commitment and signed the "Cebu Declaration" to accelerate the establishment of the ASEAN community by 2015. The community has three pillars as previously mentioned. Each pillar has its own blueprint, for example "The ASEAN Economic Community Blueprint 2025". The ASEAN Charter came into force in 2008 and formed a strong foundation for the ASEAN community by providing legal status and an institutional framework for ASEAN. The charter is a legally binding agreement between all member states. It spells out ASEAN norms, values and rules and sets out a clear target for the community in a 40-page document comprising 52 articles. (ASEAN 2019b)

Table 3.1 provides a summary of the history of ASEAN and the year in which the latter members joined the association.

Table 3-1. History of ASEAN. Adopted from: Yamanaka (2014).

Year	Narratives
1967	Established by Bangkok Declaration by Indonesia, Malaysia, Philippines, Singapore, and Thailand
1984	Joined by Brunei Darussalam
1993	Started the ASEAN Free Trade Area
1995	Joined by Vietnam
1997	Joined by Laos and Myanmar
1999	Joined by Cambodia
2003	Declare to create ASEAN Economic Community (AEC) by 2020
2007	Decide to establish AEC by 2015 and publish AEC Blueprint
2008	ASEAN Charter comes into force
2010	ASEAN 6 abolish customs duties with some exceptional items (AFTA mostly completed)
2020	Deadline for financial liberalization and integration

3.2.2 SIGNIFICANT ECONOMICS ACHIEVEMENTS

Over the course of ASEAN integration, there were a number of substantive achievements in the areas of politics, society and culture, peace keeping, and economics. For instance, in the economic dimension, the accomplishments were the elimination of tariffs, facilitation of the flow of trades, liberalization of service trades, liberalization and facilitation of investment activities, streamlining and harmonization of the regulatory framework of the capital market, facilitation of the flow of skilled-labor, development of a regional framework on competitiveness – consumer protections – and intellectual property rights, stimulating closer connectivity, tightening the regional development gap, and strengthening ASEAN’s agenda and relationship in the globe. (ASEAN 2015b)

In particular, there are around 280 harmonized international standards and technical standards in place and 98.6% of intra-ASEAN tariffs were eliminated. Also, legal and institutional structures were strengthened through enactments such as competition laws and the adoption of ASEAN high-level Principles on Consumer Protection in 2017. ASEAN Good Regulatory Practices Core Principles were also adopted in 2018 which serve as a guideline to common good regulatory practices in ASEAN work. (ASEAN 2018b)

Statistically, during 2019, ASEAN integration has a combined GDP of USD 9.34 trillion with a strong real GDP growth of 4.8% year-on-year, versus 2.1% in the U.S., 1.3% in the Euro area, and 2.3% in Japan. Foreign direct investments (FDIs) inflows grew to USD 135.6 billion, a 10.7% year-on-year increase while some major economies such as the U.S. experienced downturn and a decimal increase for China (ASEAN 2019a).

3.2.3 WHERE IT IS NOW?

In terms of financial services, ASEAN has achieved its consecutives milestones on the 7th package and has now arrived at the Protocol to Implement the 8th Package of Commitments on Financial Services under the ASEAN Framework Agreement on Services. The protocol laid out certain commitments from each member country to achieve a more integrated financial system. As reflected in a joint statement of the 5th ASEAN finance ministers and central bank governors meeting in April 2019, ASEAN continues its strong commitment to the linkage and openness of the financial services sectors among the member states through the implementation of the 8th package protocol. Negotiation is currently taking place on the 9th package protocol (ASEAN 2019c).

The 5th ASEAN finance ministers and central bank governors meeting endorsed the introduction of the Financial Services Commitments Score-map which is a new initiative that allows for the substantive monitoring of the openness of the ASEAN financial service sector. It serves as a manifest to the advancement of financial sector liberalization (ASEAN 2019c).

The ASEAN Banking Integration Framework (ABIF) has progressed with two additional bilateral agreements. However, ABIF progress is rather slow and committed to its initial scope of reciprocal bilateral agreement. For the time being, the joint statement of finance ministers and central bank governors called for banks to take advantage of the ABIF arrangements under which a qualified ASEAN Bank would provide banking business to a wider market and receive unbiased treatment in host countries. The statement also notes that deeper integration and greater collaboration in the banking industry is expected toward ASEAN banking integration (ASEAN 2019c).

3.3 ASEAN BANKING SECTOR AND GOVERNANCE – COUNTRIES' BANKING SYSTEM, MONITORING BODIES, AND APPLICABLE GOVERNANCE LAWS AND REGULATIONS

The latest consensus in the banking sector after the 2008 GFC in ASEAN and everywhere around the world is the need for a regulatory reforms of financial sector oversight. The spearhead of the reform should focus on appropriate institutional designs that must be fit-for purpose to help both crisis prevention and the crisis management system (Calvo et al. 2018). As such, the structure of supervisory institutions has shifted to a more purpose-based arrangement. The Financial Stability Institution (created by the Bank of International Settlement and Basel Committee on Banking Supervision) classified financial supervisory arrangements into three models (Calvo et al. 2018). In the sectoral model, banks are under the prudential regulatory and business conduct supervision of one sector authority. Insurance companies are supervised by another authority and the third authority has mandates to ensure disciplines and the integrity of security businesses and markets (Calvo et al. 2018). Alternatively, in the integrated model, the central bank or a designated supervisory authority is responsible for the oversight functions of all three sectors (banking, insurance and security) (Calvo et al. 2018).

Another model is the partially integrated model. This model falls into two different categories where the first category (Twin Peak) serves the objective of the supervisory responsibility itself and the second category (Two Agency) serves the objectives of the sector (Calvo et al. 2018). For example. in the case of the Australian Twin Peak model, the Australian Prudential Regulation Authority (APRA) supervises the prudential regulations aspect of banking, insurance, superannuation institutions, and the Australian Securities and Investments Commission (ASIC) is responsible for market discipline and integrity and consumer protection in the whole financial system. The Reserve Bank of Australia (RBA) oversees payment regulations, the Australian Competition and Consumer Competition (ACCC) is responsible for competition policy and the Australian Transaction Reports and Analysis Centre (AUSTRAC) supervises anti-money laundering and counter-terrorism financing regulations (APRA 2019b). The other Two Agency models are seen in France, Italy, Malaysia, etc., where one authority is responsible for the prudential supervision and business conduct of banks and insurance companies and the other authority is responsible for integrity and the business conduct of the security sector (Calvo et al. 2018).

The sub-sections that follow describe in detail the legal systems, banking structure, supervisory institution arrangements, and applicable and relevant banking laws and governance rules and regulations in each of the ASEAN countries.

3.3.1 BRUNEI

Brunei was a British protectorate from 1888 until World War II when the country was occupied by Japan. When Japan was defeated in 1945, the British resumed control over Brunei. In 1984, Brunei gained full independence from British and operate under a constitutional monarchy with ministerial government. Nowadays, Brunei is the only absolute monarchy in ASEAN in which the Sultan is the head of state and also the head of government. The legal system is based on British common law with a parallel to Muslim law. Recently, in 2014, the country adopted the strict Muslim law that applied to both Muslims and non-Muslims (Gardner 2020; JuriGlobe 2020).

Brunei’s financial system is intriguing. Data from the World Bank database as elaborated in the previous section has shown nil market capitalization of the country (TWB 2019). This is due to the lack of an established capital market exchange. However, equity trading in the country is conducted via informal exchanges by a number of financial service institutions licensed by the central finance authority, the Autoriti Monetari Brunei Darussalam (AMBD). Hence, the composition of the financial system in Brunei is not atypical to any other, rather it consists of banking, insurance and security services which are dominated by a banking sector which controls 88% of total financial assets in 2016 (AMBD 2016b).

The central financial sector authority role was previously under the arm of the country's Ministry of Finance. Under the new reform, the AMBD was established in 2011 as the country's central bank with its core responsibilities being formulating and implementing monetary policy, currency management and supervision of financial institutions (AMBD 2016b). The supervisory arrangement is an integrated model in which AMBD regulates all financial services including banking, insurance, and securities. Since its formation, several entities and departments from the Ministry of Finance have merged with AMBD, including the Brunei Currency and Monetary Board, the Brunei International Financial Centre, the Financial Institutions Division, and the Research and International Division (AMBD 2016b). This merging has empowered the AMBD not only by improving its capacity but also by providing political influence which is crucial for a central bank.

The banking sector is segmented into conventional banks and Islamic (or Sharia) banks. There is a total of nine licensed banks in both segments. Seven banks including two international, three regional and two domestic banks provide banking services to the conventional market while the other two domestic banks provide Sharia banking services (OBG 2019). As reflected in the Brunei Darussalam Financial Sector Blueprint 2016-2025, the country regards its prominent position and strong credentials in Islamic banking as a comparative advantage in the international financial market, given Islamic banks accounted for 52.4% of total banking assets as of 2016 (AMBD 2016b).

Brunei has a dual legal framework that is based on a common law system and Sharia law (AMBD 2016b). The primary banking sector regulatory framework is binding to the Banking Order 2006 and the Islamic Banking Order 2008 (AMBD 2016b). There are specific guidelines that rule bank governance. Guideline number BU/G-1/2017/5 "Guidelines on corporate governance for banks" applies to banks and guideline number BU/G-2/2017/6 "Guidelines on corporate governance for Islamic banks" applies specifically to Islamic banks (AMBD 2019).

3.3.2 CAMBODIA

Cambodia was a French protectorate from 1863 and became its colony in 1884. In 1953, Cambodia gained full independent from the French and operated under a constitutional monarchy regime. The internal conflicts and external ideologies meant the country went through several regime transitions (republic, communism, and socialism) and ultimately returned to a constitutional monarchy in 1993. The country's legal framework was completely destroyed during the civil war (1975-1979). The present legal system is largely based on French civil law and partly influenced and absorbed common law features through foreign legal assistance in building the country's legal framework. (Gardner 2020; JuriGlobe 2020)

The financial system in Cambodia is dominated by banking services. Figure 3.5 has shown that domestic credit to the private sector stood at around 99% of GDP in 2018 while the country's total market capitalization accounted for only around 1% of GDP (TWB 2019). This is due to the fact that the financial sector in Cambodia is in its infancy, with its first stock exchange established in 2011 and with only five companies listed since then. However, the banking sector has shown significant improvement within the last two decades. For instance, during the last five years, banking assets have grown at an average rate of more than 20% per annum, credit growth has increased at an average of 22% per annum, and deposit growth has gone up at an average of 24% per annum (NBC 2018).

A number of international and regional bank subsidies and branches have entered the market. As of 2018, Cambodia's banking system comprised 43 commercial banks, 14 specialized banks, 5 foreign branch representative offices, 7 microfinance deposit-taking institutions, 74 microfinance non-deposit-taking institutions, 273 rural credit operators, and 15 financial leasing companies (NBC 2018). Of the 43 commercial banks, 7 are local majority ownership, 6 are foreign majority ownership, 17 are foreign subsidies, and 12 are foreign branches (NBC 2018). This indicates positive vibrance and confidence placed in the country banking sector.

These banking and financial institutions are under the supervision of the National Bank of Cambodia, the country's central bank (NBC 2019b). On the other hand, insurance services are under the supervision of the Ministry of Finance while security markets are regulated by the Stock Exchange Commission of Cambodia (NBC 2019b). This is a characteristic of the sectoral model of financial supervisory arrangement as explained in the previous section.

The primary law that rules the conduct of banking businesses in Cambodia is the Law on banking and financial institutions 1999 (NBC 2019a). The specific guideline for bank governance is the Prakas on governance in bank and financial institutions 2008 (NBC 2019a).

3.3.3 INDONESIA

Indonesia was colonized by the Dutch in the early 17th century and was later occupied by Japan in World War II. In 1949, the country received its independent and underwent parliamentary democracy, martial law, and guided democracy. From 1967 until 1998, more than three decades, President Suharto ruled the country. In 1999, Indonesia had a free and fair legislative vote and operated as a democratic, multi-party, presidential republic. The current Indonesian modern legal system is based on a modified Dutch civil law system, the customary principles before colonization, and Muslim law that applies to Muslims (Gardner 2020; JuriGlobe 2020).

The small gap between the size of domestic credit and market capitalization to GDP discussed in the previous section (39% and 47% respectively) indicates the equal role of banking and security services in the country's financial system (TWB 2019). Based on Indonesian banking laws, banks are classified into commercial and rural banks (FSA 2019b). Principally, the differences between these two types of banks is that the latter has a restricted operational area and does not become involved directly with the central payment system (FSA 2019b). Commercial banks are further classified as conventional and Sharia banks. Following the Asian Financial Crisis in 1997, Indonesia's banking system underwent a substantive reform and opened its doors to foreign investors. Indonesia has 120 commercial banks, four of which are state-owned banks and the others are either private banks, foreign joint ventures, or foreign branches (FSA 2019b). Ten of the 120 banks control more than 50% of the market share (Walalangi, Andreta & Kurniawan 2019).

Previously, the central bank of Indonesia, Bank Indonesia, had the responsibility of regulating and supervising the financial services of the country (BoI 2019). By the end of 2013, the authority was transferred to an independent agency, the Financial Services Authority OJK (Walalangi, Andreta & Kurniawan 2019). Bank Indonesia's sole objective is to achieve and maintain the stability of the value the country's national currency, the Rupiah (BoI 2019). Financial Services Authority OJK has the power to regulate and supervise, license, inspect and maintain consumer protection in financial institutions including banks, capital markets, insurance and non-bank financial institutions (FSA 2019b). It is a form of an integrated supervision model. The Financial Services Authority OJK has its own board of commissioners and directors of operations (FSA 2019b).

The law that governs banking business in Indonesia is the Act of the republic of Indonesia number 7 of 1992 concerning banking as amended by act number 10 of 1998 and its implementing regulations (Walalangi, Andreta & Kurniawan 2019). In terms of bank governance, the Indonesian authority imposes stricter legal regulations compared to authorities in most countries to enforce good governance practices through guidelines. Indonesian banks are bound by the governance regulation (Regulation of Bank Indonesia concerning amendment to regulation of Bank Indonesia number 8/4/2006 regarding implementation of good corporate governance for commercial banks) (FSA 2019a).

3.3.4 LAOS

The French Civil law-based system was retained in Laos after French colonial rule in the early 1950s. The country had a prolonged poor legal system until the early 1990s when its government developed the justice system and consequently modernized 120 laws and regulations that followed the old approach of French civil law. Customary laws are generally practices by ethnic Laotians, however these do not have statutory power as state laws (Gardner 2020; JuriGlobe 2020).

Since the second half of 1980, Laos has implemented its New Economic Mechanism program in a bid to undertake economic reform that was expected to gradually transform its central planned economy to market economy based on private ownership. The momentum of the ambitious reform lasted about a decade and was disrupted by the lack of transparency in government-private business relationships, a controversial civil society, networks of interest groups at local and national levels, and a weak competitive economic structure resulting from its monopolistic culture. This was especially true for the development of the financial sector, taking the case of the creation of a two-tier banking system in 1988 as an example. The separation and well-defined functions of central banks and state-owned commercial banks did not provide the expected results. Commercial banks suffered from a high ratio of non-performing loans and macroeconomic instability persisted (Bowrin 2002).

Currently, the country's financial sector is still underdeveloped. The data from the previous section shows that the size of domestic credit and market capitalization to GDP is relatively low (21% and 7% respectively) compared to other countries in the region (TWB 2019). There are 43 commercial banks in the country including three state-owned banks, one specialized bank, three joint state commercial banks, eight private banks, nine foreign subsidies, and 19 foreign branches (BOL 2018). The microfinance sector also plays a significant role in the banking system where the total credit to the economy is about one sixth of the commercial banks combined (BOL 2018). There are 20 deposit-taking and 77 non-deposit-taking microfinance institutions (BOL 2018).

Financial services in Laos are regulated based on a sectoral arrangement. The banking sector is under the supervision of the country's central bank, the Bank of the Lao PDR, the securities market is regulated by the Lao Securities Commission, and the Ministry of Finance oversees the insurance sector.

Law that govern the conduct of banking business is the Law on Commercial Banks (revised) number 56/NA year 2018 (BOL 2019). However, it is currently only available in the Laos language. The law includes a specific prescription of bank governance and there is no separate corporate governance on bank regulations as in other countries (BOL 2019).

3.3.5 MALAYSIA

Malaysia was a former British colony and gained its independence in 1957. In 1963, it merged with the former British colonies of North Borneo, Sarawak and Singapore to become the Federation of Malaya. In 1965, Singapore left the federation. Presently, Malaysia is a federal constitutional monarchy consisting of 13 states and three territories. The legal system in Malaysia is complicated, as it is based on the British common law system, federal and state law, and the Muslim law (Gardner 2020; JuriGlobe 2020).

Following the Asian Financial Crisis 1997, the Malaysian banking authority took the initiative to strengthen the banking system which resulted in a more consolidated system through the merger of local banking institutions (Luk et al. 2019). The system became less fragmented and more competitive with foreign banks (Luk et al. 2019). Nowadays, Malaysia has a more developed financial market compared to its ASEAN peers. For instance, both domestic credit and market capitalization stood at more than a hundred percent of the country's GDP in 2018 (TWB 2019). Similar to its neighboring Islamic ASEAN countries, Malaysia has a dual banking system comprising a conventional market and an Islamic market (BNM 2019a).

The banking system is made up of 26 commercial banks, 8 local, 18 foreign owned and 16 Islamic banks, 11 of which are locally owned and 5 foreign owned. The banking sector is supervised by the country's central bank, Bank Negara Malaysia in accordance with its Financial Services Act 2013, including prudential matters such as capital adequacy, liquidity, corporate governance, risk management, related party transactions, etc. The role of approving and revoking banking licenses is under the authority of the Ministry of Finance with recommendations to grant or refuse a license from the Bank Negara Malaysia. The regulatory body is the same for the insurance sector while the capital market is overseen by an independent and self-funded Security Commission (BNM 2019a).

The primary statute that governs conventional banking businesses and all other financial services in Malaysia is the Financial Services Act 2013. It replaced the Banking and Financial Services Act 1989, Insurance Act 1996 and Payment Systems Act 2003 and the Exchange Control Act 1953 (Luk et al. 2019). Islamic institutions are regulated by the counterpart Islam Financial Services Act 2003 (Luk et al. 2019). The central banking authority has developed its latest version of corporate governance guideline for financial institutions including conventional banking institutions which recently came into effect on the 13th December 2019 Corporate Governance (BNM 2019a).

3.3.6 MYANMAR

Myanmar was a province of British India during the colonial era. In 1937, it separated from British India to become separate colony. In 1948, it gained independence from the British as the Union of Burma. Nowadays, the country is known as the Republic of the Union of Myanmar which is a parliamentary republic. The legal system is based on the British common law system and its traditional customary laws involve personal issues (Gardner 2020; JuriGlobe 2020).

After 1988, Myanmar started to transform its economic structure from the central planned economy. Today, Myanmar is in the middle of a politic and economic transition, moving toward a democratic and market-oriented economy (GIZ 2018). In terms of the banking sector, the country experienced such a severe crisis in 2003 where a bank run resulted in the collapse of three major financial institutions and had a huge impact on the economic system. In response, legal frameworks for financial institutions have undergone substantial reforms by adopting international standards and shifting in parallel with the ASEAN banking integration framework (GIZ 2018). In 2018, the country's financial system comprised about 25 percent of domestic credit and less than one percent of market capitalization relative to the size of GDP (TWB 2019).

Currently, there are 4 state-owned banks, 27 domestic private banks and 13 foreign banks branches (CBM 2019). Before 1990, banking assets were completely state owned and for this reason, the market share of state-owned banks remained dominant in the banking system at 60 percent in 2015 (GIZ 2018). However, there was a sharp decline and by the year 2017, state ownership stood at only 34 percent, private domestic banks at 55 percent, and the rest is foreign owned (GIZ 2018).

To transform from the monopolistic nationalized one-tier banking system, the Central Bank of Myanmar Law was enacted in 1990 (latest version 2013) and was followed by the autonomy of the central bank as the licensing authority and supervisor of all banks in the country (GIZ 2018). The insurance sector is under the authority of the Ministry of Planning and Finance while the capital market is regulated by the Securities and Exchange Commission of Myanmar.

The Financial Institution Law 2016 dictates the banking businesses in Myanmar and the law itself is the cornerstone of the government's banking sector reform (CBM 2019). The law also laid out and encouraged the practice of good corporate governance, and promoted transparency and accountability in banks (CBM 2016b). Chapter 10 of the law specifically spells out 11 sections of good bank governance structure (CBM 2016b). There are no separate corporate governance guidelines for banks.

3.3.7 PHILIPPINES

The Philippines was ceded to the U.S. by Spain in 1898. In 1942, the Japanese occupied the Philippines during World War II. In 1946, the Philippines gained independence as the Republic of the Philippines and the name remains till today. The country is a unitary presidential constitutional republic where the president acts as both the head of state and the head of the government for the six years' electorate term. The factors that influenced the legal system were the colonization by the Spanish and the Unites States, and the immigration of Muslims from

Malay in the 14th century. As a result, the Philippines' legal system is a mixture of Roman civil law and Anglo-American common law (Gardner 2020; JuriGlobe 2020).

The composition of the Philippines' financial system consists of about 50% of domestic credit and 78% of market capitalization, to the size of GDP in 2018 (TWB 2019). Compared to its ASEAN peers, the Philippines is more developed. The country's banking structure comprises three types of banks (BSP 2019). First, the universal and commercial banks are the largest in terms of resource and offer the widest variety of banking services among the other banking institutions. Universal banks are authorized to perform more functions than commercial banks, such as being an investment house to underwrite securities. Second is the thrift banks which accumulate savings via customer's deposits and investing them. Another type is the rural and cooperative banks which provide basic financial services meeting the demands of rural communities. There are 43 universal and commercial banks, 17 of which are private domestic banks, 3 state-owned banks, 2 foreign subsidiaries and 21 are branches of foreign banks (BSP 2019). Also, there are 54 thrift banks and 470 rural banks. Even though the number of banks is smaller, universal and commercial banks control about 91 percent of the banking market share in 2019 (BSP 2019).

The Bangko Sentral Ng Pilipinas (BSP) is the central bank of the Philippines and also supervises the operations of banking institutions. The insurance sector is under the authority of the Insurance Commission while the security market is regulated by the country's Securities and Exchange Commission (BSP 2019).

The establishment of a banking institution is governed by the General Banking Law of 2000 (latest version). The regulations for bank corporate governance are written in the Manual of Regulations for Banks along with all the rules which apply to banking institutes (BSP 2017). Separately, there are guidelines called Enhanced Corporate Governance Guidelines for BSP-Supervised Financial (2017) which collate all corporate governance rules for banks in a single document (BSP 2017).

3.3.8 SINGAPORE

Singapore was a Straits Settlement (together with Penang and Malacca), under the control of British India from 1826. In 1946, it became a Crown colony, transferred to self-governing in 1959, and joined the Federation of Malaysia in 1963. Two years later, in 1965, Singapore left the federation to become sovereign, independent, democratic state. The country's legal system is based on the common law system as a result of past Crown colonization (Gardner 2020; JuriGlobe 2020).

Singapore has an advanced financial system and is not just the regional leader but also an active player in the world's financial system by being a major distribution hub of finance across the region. The country's domestic credit stood at about 120% and market capitalization was nearly 190% of the size of GDP in 2018 (TWB 2019), which is the highest among its ASEAN peers.

Singapore has a broad range of banking institutions which provide a variety of banking services that were the products of the government's initiative to push toward innovation in the financial market (MAS 2019b). There are four main types of banking institutions in Singapore: full banks, wholesale banks, merchant banks and finance companies. They are either locally incorporated, foreign subsidiaries or branches. As of 2019, there were 33 full banks, 4 of which were local banks, 99 wholesale banks, 25 merchant banks, and 3 finance companies (MAS 2019b). They differed in the permission of the scope of their businesses.

The Monetary Authority of Singapore Act gave authority to the MAS to perform the function of central bank of the country and to regulate financial institutions covering all financial services including banking, capital markets, and insurance (MAS 2019a). The Banking Act (latest revision 2008) guides banking businesses. Corporate governance in the banking sector is bound by the Banking Corporate Governance Regulation 2005 (MAS 2019a). The MAS also published Guidelines on Corporate Governance for Financial Institutions Incorporated in Singapore which spells out principles for corporate governance best practices that apply to all banking, insurance and capital market sectors (MAS 2013b).

3.3.9 THAILAND

Thailand is the only sovereign state that has been colonial-free in the history of the South-East Asia. In 1932, a constitutional monarchy replaced the absolute monarchy. Since then, the kingdom has tried to install a democratic system that resulted in the adoption of 20 constitutions and at least 18 coups. The present legal system is based on a civil law system (Gardner 2020; JuriGlobe 2020).

Thailand's domestic credit was 144% while market capitalization represented 99% of the GDP size in 2018 (TWB 2019). In terms of the whole financial market, commercial banking takes up to 45% of the total market share; 9% is by insurance and 35% by equity market (BOT 2019). Data show a robust financial system in the country operating at a more developed pace compared to its ASEAN peers.

The banking system in Thailand is composed of commercial banks (focusing on private finance), specialized banks (government owned and focusing on public finance), saving cooperatives and credit unions (about 2,000 cooperatives and unions). The country has 30 commercial banks, 15 of which are local banks, 11 are foreign owned and 4 are foreign subsidiaries. Local banks are the market dominator, possessing 90% of the total market share, foreign banks account for 9% and foreign subsidiaries the remaining 1%. (BOT 2019)

The Financial Institutions Businesses Act B.E. 2551 which repealed previous commercial bank acts, governs banking business conduct in Thailand and the act itself gave authority to the Bank of Thailand to regulate banking institutions (BOT 2019). The Bank of Thailand is also the country's central bank and operates as an autonomous entity. The insurance sector is regulated by the Office of Insurance Commission and the security market is under the supervision of the Securities and Exchange Commission of Thailand. Both commissions are independent regulators operating under their own board of commissioners. In terms of bank corporate governance, the Financial Institutions Businesses Act B.E. 2551 laid out some fundamental requirements for ownership structure and the role of boards of directors (BOT 2019). The Bank of Thailand has produced its own guideline Corporate Governance of Financial Institutions 2017 (number FPG.13/2552) (BOT 2019) for best practice and more detailed guidelines.

3.3.10 VIETNAM

Vietnam was occupied by China for about a century, and in the mid-19th century it became a French colony and was then occupied by Japan during World War II. After Japan was defeated, the French resumed control of the colony and granted its independence in 1945 and it became the Social Republic of Vietnam. The Vietnam War began when French attempted to regain control. In 1954, the French were defeated, and Vietnam was divided into the North (Democratic Republic of Vietnam) and the South (Republic of Vietnam). The U.S. intervened in the relationship and another Vietnam War began. The war ended in 1975 with victory to the North and the country was then unified. Currently, the country is a one-party state. The

Communist Party of Vietnam rules the country under the constitution. Even though Vietnam is a Socialist country, its legal system is influenced by French civil law traditions (Gardner 2020; JuriGlobe 2020).

In a socialist one-party country, there have been excessive government interventions in the banking sector (Larsen 2019). In a bid to gain appeal from international investors, the recently approved (2019) Development Strategy of Vietnam Banking Sector to 2025 with Orientations to 2030 is a major blueprint that reinforces the independence and accountability of the central bank (the State Bank of Vietnam) and also laid out important foundations toward increased transparency in the banking sector (Larsen 2019). Within the last decade, Vietnam has also improved its banking sector in term of banking assets via the country's achievements of stable inflation and interest rates and favorable environment to attract FDIs (SBV 2019).

The financial market in Vietnam comprises domestic credit of 133% and a ratio of market capitalization of 54% to the size of the GDP in 2018 (TWB 2019). The banking system in Vietnam comprises 48 commercials banks, 5 of which are state-owned commercial banks, 33 joint-stock commercial banks, 5 joint-venture commercial banks, and 5 wholly foreign-owned banks (SBV 2019). In terms of asset size, the 5 state-owned banks possess more than 40% of total banking assets (SBV 2019). One of these, the Social Policy Bank of Vietnam, functions on a non-profit basis and provides services to support the small policies via a subsidized interest rate (DEVEX 2019).

The central bank has the power to undertake monetary policy and regulate banking institutions in the country. The insurance sector is under the supervision of the Insurance Supervisory Authority and the security market is overseen by the State Securities Commission of Vietnam; both are administrative units of the country's Ministry of Finance. The conduct of banking business is regulated by the Law on Credit Institutions 2010 (latest version). There are no separate guidelines on bank corporate governance. Within the banking law, chapter 3 on organization, administration, management of a credit institution stipulates bank governance practices and requirements (SBV 2019).

3.4 CORPORATE GOVERNANCE IN THE ASEAN CONTEXT

3.4.1 ASEAN CORPORATE GOVERNANCE PRACTICES

The focus on corporate governance in South-East Asia drew significant attention from policy makers and private sectors soon after the Asian financial crisis in 1997 (Leong 2005). Poor corporate governance or the lack of it was seen as accounting for weak investment structure, poor regulatory and accounting systems, fraudulence financial practices, and questionable government interventions (Leong 2005). As of today, high-level policy makers and corporate decision makers have expressed strong acknowledgement of the good corporate governance practices required to attain sustainable economic development (Leong 2005). Nevertheless, studies suggested that the corporate governance international best practices such as OECD's corporate governance guidelines or the Cadbury Code of Best Practices developed in the West are inapplicable to the ASEAN context (Chuanrommanee & Swierczek 2007). In particular, a study has provided evidence that the distinctive corporate structures in the ASEAN required its own design of corporate best-practices (Chuanrommanee & Swierczek 2007). Taking the case of ownership structure as an example, unlike in Western economies in which corporations are commonly controlled or influenced by equity holders, in Southeast Asia countries there is a predominance of family-based controlled firms that heavily depend on relationship-based systems (Khan 2004).

Unfortunately, corporate governance studies in the context of ASEAN are relatively few and are outnumbered by specific studies on European Union or Anglo-America countries. Some relevant ASEAN and ASEAN country-specific studies have been identified and are reviewed below.

Chuanrommanee and Swierczek (2007) adopted a corporate governance study methodology from LaPorta, Silanes and Shleifer (1998) and applied it to the ASEAN context. Chuanrommanee and Swierczek analysed 27 financial corporations in Singapaore, Malaysia and Thailand through annual reports and websites that focused on owership structure (concentration and composition), shareholder protection (shareholder rights and transparency and information disclosure), creditor protection, and board governance structure (duality, non-executive directors' representation on board, and existence of board monitoring committees). They found that the picture of corpoarte governance companies presented in some reports did not reflect actual practices although the corporate governance practices of Singapore, Malaysia and Thailand financial corporations are consistent with international best practices (OECD’s guideline) (Chuanrommanee & Swierczek 2007).

In another study of 575 listed corporations in ASEAN, Ahmad (2015) focused on three countries: Malaysia, Thailand, and Indonesia. He used a statistical method (OLS regression) to study the relationship between ownership structure (founder, institutional, managerial, and dispersion) and the dividend payout policy. He asserted there was a positive relationship between the two.

In one of the recent studies, Ramly et al. (2015) examined the role of independent women directors in improving ASEAN banks’ efficiency. They studied five countries (Thailand, Singapore, Phillipine, Malaysia, and Indonesia) that totalled 102 banks using data obatained from annual reports, and analyzed these using the generalized method of moments regression model. The study found that the appointment of independent directors or women directors alone does not improve banks’ efficiency. However, when women are appointed as independent directors, they are more effective and also banks are more efficient (Ramly et al. 2015). In contrast, Thanh Tu, Huu Loi and Hoang Yen (2015) used a sample of 70 banks in five ASEAN countries (Vietnam, Thailand, Malaysia, and Indonesia) and found that the presence of women directors alone has a positive and significant effect on the banks’ performance.

Concerning corporate governance pratices in Thailand, Suehiro and Wailerdsak (2004) examined theownership stucture of 1,800 Thai companies belonging to 220 business groups. He found that family-based ownership is strong and can be divided into four catagories: closed family businesses, specialized family businesses, authoritarian family conglomerates, and modern family conglomerates. In another study on Thailand, Ananchotikul (2008) investigated different forms of ownership structure impacted by foreign investors. He found that the presence of foreign industrial investors as insiders tends to exploit minority shareholders, thus weakening corporate governance (Ananchotikul 2008). In contrast, if the foreign institutional investors represented a minority stake, it led to the improvement of corporate governance (Ananchotikul 2008).

In a study of Malaysian corporate governacne, Dogan and Smyth (2002) investigated the connection between board remuneration with company performance and ownership concentration. The sample companies listed on Kuala Lumpur Stock Exchange have shown a statistically significant positive relationship between board remuneration and company performance (sale turnover) and a statistically significant negative relationship between board remuneration and ownership concentration (Dogan & Smyth 2002). Similarly, Leng (2004) examined the relationship between the size of a firm, gearing ratio, and percentage of shares held by institutional investors with Malaysian firms' performance. He found that the performance of the firm (return on equity) increases with the firm's size and the strength of institutional investors, and decreases with the amount of debt (Leng 2004).

Specifically looking at Indonesia, Utama, Utama and Amarullah (2017) developed a corporate governance instrument to measure corporate governance practices based on the ASEAN Corporate Governance Scorecard (the scorecard is explained in next section). The study aimed to examine the relationship between corporate governance practices and the ownership structure of 160 non-financial publicly listed companies in Indonesia (Utama, Utama & Amarullah 2017). The level of corporate governance practices is indexed based on the protection of shareholder rights, fair treatment of shareholders, respect of the rights of shareholders, disclosure and transparancy, and responsibilities of the board. Ownership structure is measured by cash flow rights and leverage. Utama, Utama and Amarullah (2017) found that corporate governance practices have a positive impact on cash flow rights and a marginal negative influence on cash flow leverage, which implies that companies with good corporate governance practices tend to promote the alignment of interests between controlling and non-controling shareholders and tend to reject the exploitation of non-controling shareholders (Utama, Utama & Amarullah 2017). Also, concerning Indonesia, Muliati et al. (2017) looked at the issue of corporate governance and environmental performance in the context of ASEAN economic community. Based on secondary data from various rating organizations, they found that both the corporate governance performance and environmental performance index (measured by air quality, water and sanitation, biodiversity and habitat, etc.) are increasing, thus implying that Indonesia is in an advantaged position in ASEAN economic community integration. In other words, Indonesia's environmental impacts governed by their corporate governance framework are more ready for the ASEAN integration compared to other members.

3.4.2 ASEAN BANK GOVERNANCE

History has shown that banks are one of the most hazardous economic agents in the free capital market, for instance the breakdown of the banking sector was proven to amplify the Asian financial crisis in 1997 and the global financial crisis in 2008. Banks themselves are described by many as the backbone of the economy, performing the overwhelming functions of funds mobilization and funds matching. For instance, as they grow larger and larger in terms of assets, their solvency poses a tremendous systemic risk to all participating economies. Yet, academic research and discussion on bank governance has attracted surprisingly little attention (Leong 2005).

One of the reasons as pointed out by Randhawa (2005) is that most researchers have concentrated on the corporate governance of the corporate sector. This is not strange though, as they focused on cases located in more developed countries in the Western part of the world. Those countries are accurately referred to as examples of the governance in Anglo-American's capital market-based system. The foundation of such corporations is strongly based on funds from stock exchanges, whereas in Southeast Asia, capital markets are between developing and premature stages in which the majority of corporate equity is funded by banks, family businesses, and governments. On this account, the emphasis on bank governance in the ASEAN context should not by neglected by policy makers, academic researchers, and practitioners.

Not completely neglected though, the Institute of Southeast Asian Studies has assembled academic papers into a handbook that addresses corporate governance reform in South-East Asia countries. It contains a chapter that contributes to governance reform in the banking sector in the region. The articles recognize the complicated structure of bank governance and yet claims banking governance should not be deemed synonymous with the risk management of banks, despite the nature of its intrinsic risks attached to business operations (Randhawa 2005). On the other hand, for two reasons, bank governance in ASEAN as well as elsewhere should be centered over the issue of stakeholder's confidence. First, depositors who are a major source of bank funds place their confidence in banks that are deemed to possess sound corporate governance structures and meet regulatory governance standards. As a result, depositors and clients are willing to pay a premium on banks. This increases the ability of banks to attract more funding at a lower cost in a free competitive market. Second, a loss of confidence in banks can be catastrophic for all, especially a huge bank that services a large number of public and entities. The case of a well-documented run on the Northern Rock bank in Britain serves as a lucid example. When the public lost confidence, they started withdrawing money from the bank causing an outflux of bank capital, sparking liquidity problems and disrupting payment systems that ultimately led to the solvency of the bank.

Having explained the importance of bank governance, it is vital to understand how bank governance is different from non-financial corporations. In a working paper from the World Bank, Levine (2004) provided some distinctive characteristics of bank governance (summarized in Table 3.2) as opposed to non-bank companies. First, the banking industry tends to be concentrated or monopolistic in terms of the number of players in a certain market, especially in ASEAN markets that are concentrated by predominantly family and state ownership. This hinders the development of good corporate governance practices through direct influence by majority shareowners. The monopolistic environment with a low degree of competition also contributes to the conservative development of governance.

Second, bank financial statements are easily accessible due to regulatory disclosure requirements. However, the content of the financial statements is somewhat tricky and opaque (Levine 2004). For instance, the value of a bank is extremely hard to assess as different levels of risk are attached to an extensive list of loan portfolios of bank's assets. In other words, the real economic value of each loan portfolio is reflected through the level of risk it possesses, so to get the real economic value of a bank's assets, each loan portfolio requires individual assessment. Regulators require banks to classify loan portfolios in different classes by risk so that it is possible to arrive at a number representing bank value. However, the inherent risks and nature of loan portfolios result in the opacity of information or information asymmetry that creates an opportunity for bank managers to exploit the reporting statements for their personal interest, such as when their bonuses are tied to company value.

Third, banking is the most highly leveraged industry. The capital structure of banks is very different from non-bank companies in that the majority of their capital is funded by bank depositors in the form of bank deposits, yet these fund providers do not take part in bank ownership. Hence, in the banking industry, the shareholder base is small. There are other potential indicators of governance issues, such as minority shareholder rights and protections. For the same reason, due to their distinctive capital structure and to maintain financial stability, banks are extensively regulated under national banking supervisory frameworks that mostly follow standards set by the Basel Committee of Banking Supervision (BIS 2019). In this sense and to retain public confidence in the banking system, deposit insurance is established, controlled either by an independent public agency, central bank, or private entity. The inverse consequence of the deposit insurance is destructive to bank corporate governance (Randhawa 2005). For instance, the existence of deposit insurance diminishes the incentive for depositors to oversee banks and engage in filing instructive comments or complains (Randhawa 2005).

Table 3-2. Differences in governance in bank and non-bank institutions. Adopted from Levine (2004) and Randhawa (2005).

	Assumptions underlying the traditional corporate model	**Banks**
Market structure	Competitive	Tend to be monopolistic and cooperative
Information asymmetry	Form crux of agency problem	Agency problem is more complex as information is opaquer
Capital structure	Industry average ratio	Highly leveraged
Regulation	Common for all sectors	Heavily regulated and frequent intervention by authority
Ownership	Dispersed	Concentrated, family and government-based ownership

3.4.3 EMERGENCE OF ASEAN CORPORATE GOVERNANCE ASSOCIATIONS, REPORTS AND ACADEMIC INITIATIVES

In response to the experience of the bitter downturn as a result of the Asian financial crisis of 1997, countries set various policy measures to reform corporate governance structures and to define the best corporate governance practices that suited each individual country’s situation. At the regional level, a number of initiatives have been established to address the same objectives and also to improve specific governance issues such as reporting transparency, institutional and director accountability, environmental and social impacts, regulatory cooperation etc., (Leong 2005) especially under the theme of the co-operation of Southeast Asia countries and the unified ASEAN economic community. Some impactful initiatives are detailed in the following.

The Asian Corporate Governance Association (ACGA) was founded in 1999 with the goal of achieving the long-term development of capital markets in Asian economies (ACGA 2019). It is an independent and non-profit establishment operating on a membership basis, dedicated to working with regulators, listed companies, auditors and institutional investors to make positive improvements and implement the best corporate governance practices (ACGA 2019). There are three primary activities within its scope of work (ACGA 2019). First, it undertook research on 12 Asia Pacific markets and provided an independent analysis of the development of laws and regulations, investors' engagements and corporate practices. Second, ACGA advocates through constructive dialogue with regulators, stock exchanges, investors and corporations to address pressing corporate governance issues. Last, it provides an educational platform through conferences and seminars which focus on the benefits of a sound corporate governance system and effective methods of achieving this. Its latest impactful achievement is the publication of its corporate governance watch report titled "Hard decision – Asian faces tough choices in corporate governance reform" (ACGA 2018). The report, published every two years, provides a ranking of governance in 12 Asian markets. The latest edition was issued in December 2018 (ACGA 2018).

The ASEAN Capital Market Forum (ACMF) is one among a number of ASEAN Economic Community's organs created to implement tasks to promote ASEAN capital market integration (ASEAN 2015b). The ACMF under its Corporate Governance Initiative and with technical assistance from the Asian Development Bank uses a tool called the ASEAN Corporate Governance Scorecard (referred to as the scorecard) to rank corporate governance practices of ASEAN-listed companies (ADB & ACMF 2015). The initiatives started in 2011 and corporate governance experts from the region have developed the scorecard and assessment methodology. The initial development of the scorecard was based on the benchmark of the OECD Principles of Corporate Governance with respect to references of the existing body of works in the region and focused on five core areas: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board (ADB & ACMF 2015). The weightage allocated to each area for the purpose of ranking are 10%, 15%, 10%, 25%, and 40% respectively (ADB & ACMF 2015). The latest version that is publicly available is the 2015 report which ranked over 500 listed companies in six ASEAN countries (Malaysia, Indonesia, Philippines, Singapore, Thailand, and Vietnam). The report revealed that the three top performers were Singapore, Thailand, and Malaysia (Razook 2015).

The ASEAN Studies Centre of the Institute of Southeast Asian Studies – Yusof Ishak publishes the Journal of Southeast Asian Economies that address multi-disciplinary economic issues in the Southeast Asia region (ISAS 2019). The institute has produced a handbook that contributes to the development of corporate governance in Southeast Asia titled Reforming Corporate Governance in Southeast Asia (Leong 2005). It provides various background discussions and on-going issues of concern in the development of corporate governance. Also, there are chapters that elaborate on discussions of corporate governance development in country-specific cases such as Malaysia, Indonesia, Thailand, Singapore, Philippines and Vietnam (Leong 2005). The handbook is a resourceful source of information and is among the very first extensive academic contributions on regional corporate governance development.

The most current report on the development of ASEAN countries' corporate governance was issued in 2019 by the OECD under the OECD-Southeast Asia Corporate Governance Initiative titled Corporate Governance Frameworks in Cambodia, Lao PDR, Myanmar and Vietnam. The initiative aims to provide support to the growth of healthy and vigorous capital markets via advancement of corporate governance standards and practices. The report took into account the current stage of economic development of CLMV countries (Cambodia, Laos, Myanmar and Vietnam) and their specific needs for corporate governance reform. It compiles information of the four countries' corporate governance frameworks, identifies challenges, and provides suggestions on the priority areas needing reform. With collaboration from local authorities, the report provides the most extensive corporate governance framework information on the CLMV countries which occasionally are excluded from ASEAN corporate governance reports due to their stage of capital market development (OECD 2019).

3.5 FINANCIAL SYSTEM AND BANKING INTEGRATION OF ASEAN

Diversity is characteristic of the financial sector in ASEAN due to the development gap in the financial frameworks and financial assets including equity, bond and bank finance (Yamanaka 2014). The largest gap is the development stage in capital markets. For instance, compared with other countries, Singapore and Malaysia have developed more mature markets supported by strong legal infrastructures, while a capital exchange is yet to exist in Brunei. In terms of the banking sector, the development gap is relatively smaller than the capital market gap in terms of market capitalizations with major concerns placed on financial inclusion (Yamanaka 2014).

3.5.1 FINANCIAL SYSTEM OF ASEAN

The main focus on ASEAN financial integration is in the banking sector rather than equity and bond markets, given the historical dominance of bank-based finance in ASEAN and opportunities from deleveraging European banks (Almekinders et al. 2015; Gochoco–Bautista & Remolona 2017). Banking also remains the key financial intermediary across the region (Almekinders et al. 2015). To back up these claims, data show that domestic credit provided to private sectors accounted for 79.11% of the GDP whereas the region's market capitalization stood at 65.34% in the year 2018. Domestic credit to the private sector refers to the financial resources supplied to the private sector by financial corporations via loans, non-equity securities, trade credit and other account receivables that have a legal claim for repayment.

Figure 3.1 provides a glimpse of the composition of ASEAN financial markets characterized by equity markets and bank finance. In terms of the equity market, Singapore, Malaysia and Thailand lead the other countries in the advancement of their corporate governance frameworks (Almekinders et al. 2015). Of the ten members, only Brunei has not established a stock exchange and CLMV countries have only opened their stock exchanges within the last two decades (OECD 2019). Myanmar is the country with the smallest market capitalization to GDP ratio of 0.66% (USD 0.45 billion) in 2018 with 5 listed companies (given its exchange only opened at the end of 2015), while 2018 Cambodia has the smallest market capitalization in terms of dollar amount of UDS 300 mil (OECD 2019).

Figure 3-1. ASEAN market capitalization in percentage of country GDP in 2018. Data source: The World Bank database (TWB 2019).

As shown in Figure 3.2, Thailand's leading position in domestic credit to private sector ratio reflects the vigorous financial intermediary role of the banks within its banking system. While Cambodia is a poor performer in capital market, the country has an active and dynamic banking system in which its banks have the capacity to gather sizable deposits and provide credit to the private sector which is almost equivalent to the size of its GDP.

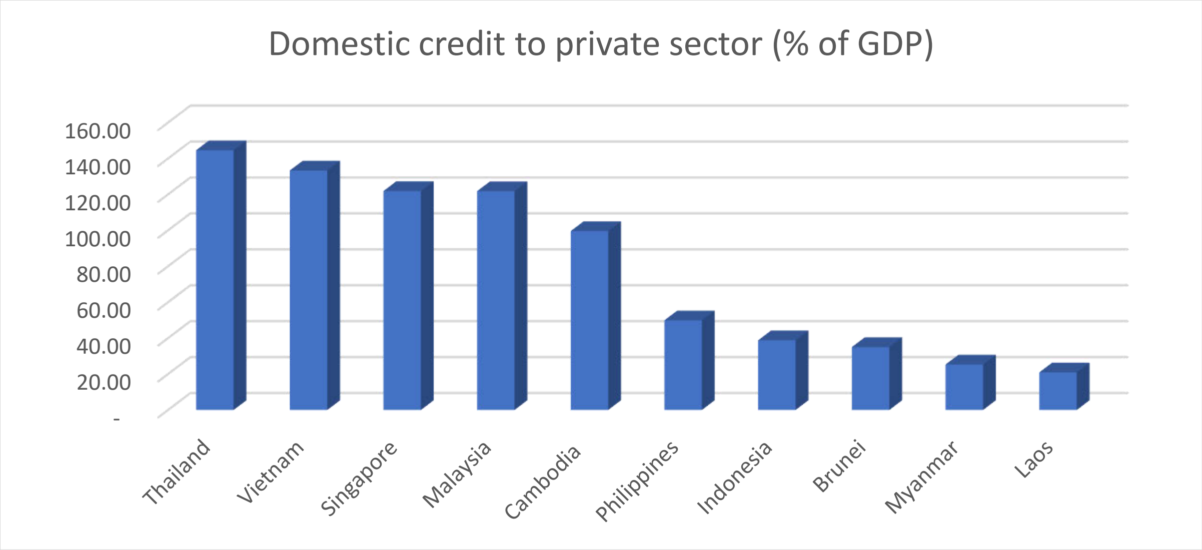

Figure 3-2. ASEAN domestic credit to private sector in percentage of country GDP in 2018. Data source: The World Bank database (TWB 2019).

Table 3.3 compares the capital market and the banking sector in each of the ASEAN countries. Note that Brunei has yet to establish a capital exchange. The advancement of the capital market sector signifies the development stage of the corporate governance frameworks and practices as it is a pre-condition to attract capital investment, at least based on the theory and most writers' perceptions (Yamanaka 2014).

Table 3-3. Market capitalization and domestic credit to private sector in percentage of GDP in 2018. Data compiled by author from The World Bank database (TWB 2019).

	Domestic credit to private sector (% of GDP)	**Market capitalization (% of GDP)**
Brunei	35.00	0
Cambodia	99.60	1.25
Indonesia	38.80	46.7
Laos	20.90	7.11
Malaysia	121.80	112.3
Myanmar	25.30	0.66
Philippines	49.90	78
Singapore	121.90	188.7
Thailand	144.60	99.2
Vietnam	133.30	54.2
Aggregate average	**79.11**	**65.34**

3.5.2 BANKING SECTOR OF ASEAN

The banking sector plays a vital role in the economies of underdeveloped capital markets such as those in ASEAN countries (Gochoco–Bautista & Remolona 2017). In particular, commercial banks are the most crucial type of financial institution in ASEAN (ADB & ASEAN 2013). For instance, banking assets account for more than 80% of total financial assets within the region. For members at an early stage of capital market development, the shares are even higher at around 98% of the country's total financial assets (ADB & ASEAN 2013). These commercial banks are regulated and supervised by central banks, whereas in the United States, Australia, U.K., etc. there are independent agencies to regulate and supervise the banking sector. The average capital adequacy ratio is over 15% and the average non-performing loans ratio is well under 5% in all ASEAN countries. These are positive international standard indicators of the soundness of the banking system (ADB & ASEAN 2013).

The size of ASEAN banks, measured in terms of assets, are small relative to their GDP and compared to the average size of the world's 500 largest commercial banks. Region-wide, there are large gaps in the size of banks across each country. Banks in Singapore and Malaysia have average assets higher than USD 14 billion and nearly USD 10 billion for banks in Thailand whereas the number is below USD 3 billion for less developed members. On a global scale, market capitalization of the top 24 ASEAN banks combined is smaller than the size of China's Industrial and Commercial Bank of China (ICBC), China Construction Bank, or Hong Kong and Shanghai Banking Corporation (HSBC). Of the top ASEAN banks, three Singaporean and one Malaysian bank are ranked among the world's top 100 banks in terms of market capitalization (ADB & ASEAN 2013).

3.5.2.1 FUNCTIONS OF A BANK

A bank is defined as "*an entity whose business is to receive deposits, or close substitutes for deposits, from the public and to grant credits for its own account. Banks include the following entities: commercial banks, universal banks, savings banks, post banks, giro institutions, agricultural credit banks, cooperative credit banks and credit unions*" (BIS 2018). In simple terms, the main function of a banking institution is as a financial intermediary matching funds from those with a surplus to those of shortage and providing settlement facilities to those in the economy system. So fundamentally, what makes an institution a bank is the provision of three services: deposit taking, loan issuance, and payment services. Banks are established under a variety of forms and specializations depending upon its business goals (Sudrajad 2018).

3.5.2.2 BUSINESS MODEL OF BANKS

The business model of banks has transformed rapidly over the years since the global financial crisis in 2008, from a traditional model to a more complex model (Sudrajad 2018). The traditional model or as coined by Ayadi et al. (2015) the “originate to hold” model bank provides loans to individuals and entities and holds those loans until maturity in their balance sheet so that the credit risk is retained by the bank. With innovation and technology development, financiers created credit risk derivatives that allow them to secure these loans, transfer the credit risk to another party, and leverage the liquidity to inflate their balance sheet. For instance, the securitization of assets involves the repackage of loans into interest bearing securities and the holders of those securities receive interest and payments which are, in reality, sourced from payments from the original debtors. So, by channeling credit risk to another party, the situation stimulates a critical moral hazard in which banks are incentivized to issue as many loans as possible, regardless of the credit rating, compounded by a lack of monitoring the evolving credit risks of the borrowers. Ayadi et al. (2015) refer to this new business model as “originate to distribute” in which banks are in the position of excessive risk taking which reached its peak just prior to the global financial crisis of 2008.

This phenomenon does not explain much of the banking businesses in ASEAN; in fact ASEAN banks are still dominated by a traditional business model (Sudrajad 2018). A paper published by BIS identified four forces that have shaped the banking business in emerging markets, which is the case in the majority of ASEAN countries (Hawkins & Mihaljek 2001). The first force is deregulation and the policy of opening up to foreign competition. Traditionally, the banking sector in developing countries was owned by the state or else tended to be highly protected by restriction to foreign and even domestic entry. With macro-economic pressure, financial crises impacts and global market and technology advancement, these countries have been forced to open their door to competition and the banking sectors has been privatized to improve consumer welfare and to develop their economy as a whole.

The second force is the dissemination of technology advancement and their increased ability to leverage from technology. The third force is change in corporate behavior in a way that makes them less dependent on capital from banks. Through the development of the capital market, corporate entities are able to access funds via share issuance, bond issuance, or some sort of guarantee.

The last force that drives change is the impact of the global financial crisis. For instance, recent experiences have shown that the one of the contagious impacts are from the source of the fund in which the downfall spills over to a host country, as losses which occur in another host country result in the home country reducing its credit risk exposure elsewhere. Rijckeghem and Weder (2003) called the force the "common-lender effect", in particular, it occurs when a creditor bank withdraws funds from one country to restore its position in capital adequacy ratio, margin calls, maintaining value at risk model, etc. when there is a loss in another country. Therefore, monetary authorities and banks everywhere have diversified their borrowing portfolio to avoid such an effect (Gochoco–Bautista & Remolona 2017).

3.5.2.3 CURRENT ENVIRONMENT OF ASEAN BANKING INTEGRATION

The level of banking integration can be measured in a number of ways. The most basic measurement indicator is the flow of capital across borders. Figure 3.3 indicates there has been a speedy increase of cross-border capital flows via banks into the Asia-pacific region over the last two decades, especially after the global financial crisis in 2008, with a little bounce back during 2015. However, the overall trend in progress reveals an upward slope which signifies a more integrated banking sector. In particular, Figure 3.4 illustrates a gradual increase in bank claims within the region whereas there are stable upward trends on claims from banks outside the region such as in the U.S., U.K., E.U., Switzerland, and other countries. In other words, banks within the region are involved in the integration process and the level of integration is increasing within the region.

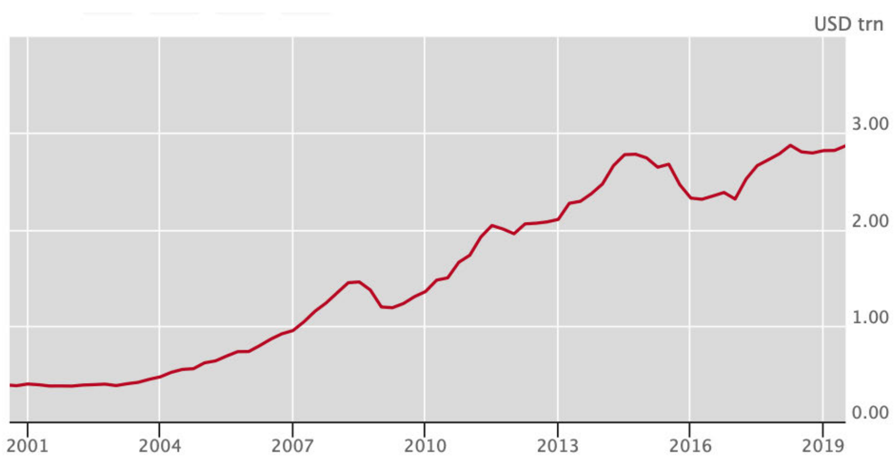

Figure 3-3. Cross-border claims on Developing Asia Pacific. Data source: BIS (2020).

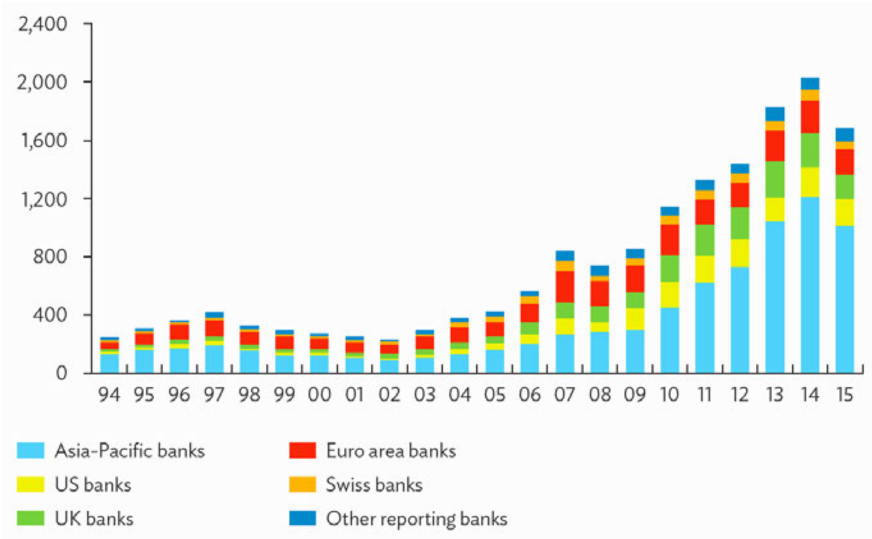

Figure 3-4. International claims on Asia-Pacific banks (by home region and creditors banks in US$ billion). Adopted from: Gochoco–Bautista & Remolona (2017).

On the other hand, the cross-border penetration of ASEAN-based banks within ASEAN follows the opposite trend. There is still yet to be an ASEAN-based bank that has a subsidiary or branch in all ASEAN member countries. The three banks which have the widest number of branches within the region are Malaysia's Maybank, Thailand's Bangkok Bank, and Singapore's United Overseas Bank, which are in seven ASEAN member countries.

3.5.3 WHY ASEAN BANKING INTEGRATION?

The banking integration theories and experiences in other emerging economies suggest that ASEAN banking integration produces substantial benefits for all member states (ADB & ASEAN 2013). In a broad macroeconomics explanation, the integration is seen as a vehicle which enables freer capital mobility in the region which reduces transactional costs, justifies manipulative costs of capital, and spurs FDIs and investment projects (Yamanaka 2014).

There are three distinctive advantages that banking integration brings to banking markets (ADB & ASEAN 2013; Yamanaka 2014). First, an integrated system expands banks' customer base and therefore opens up the possibility of banking cost reduction through economies of scale, higher business efficiency, and tighter competition. This can be rationalized by the fact that banks will be able to realize regional savings in the form of customer deposits from larger segments through their network of subsidiaries in the region and allocate these deposits in the form of bank loans to more productive investments and success-prone projects (ADB & ASEAN 2013; Yamanaka 2014). Second, banks can allocate and spread their human and technological resources throughout the region via their business subsidiaries (Yamanaka 2014).

This significantly benefits less-developed nations and could potentially bridge the development gaps between member nations. Last, integrated banking markets means closer and more engaged cooperation among regulators and banks themselves across borders. Collectively these actors will create a mechanism that ensures the soundness of the system and protects the regional economic stability from threats and external shocks. Also, the emergence of regional competitive banks and improved financial market infrastructures will result in a stronger resilience to financial and non-financial shocks (ADB & ASEAN 2013).

3.5.4 RISKS OF BANKING MARKET INTEGRATION

Integration brings a number of economic benefits and could catalyze the development of the banking system in less developed member states. However, there are several significant risks emanating from banking integration that could be hazardous to individual countries and the region as a whole and there are several barriers that hinder ASEAN-wide integration.

First, one of contagious risks that a consolidated system bring to the system and institutional levels is the common lender effect, as explained in the previous section (business model of bank). Again, the risk arises as a creditor bank withdraw funds from one country to restore its position in capital adequacy ratio, margin calls, maintain value at risk model, etc. when there is a loss in another country (Rijckeghem & Weder 2003). This risk is categorized as contagious with reference to the case where Japanese banks lent to banks in Asia during the Asian Financial Crisis which caused Asian banks to take the hit of Japanese funds withdrawal (Rijckeghem & Weder 2003). Another contagious effect is referred to as the "wake-up call" effect. This risk arises following the incurrence of a financial crisis where bank creditors withdraw funds from debtor banks in a country, due to the change of perceptions or the revaluation of risk profiles of an entire assets class (Rijckeghem & Weder 2003).

A report by ASEAN and ADB also pointed out two major risks. The first concern regards the spill-over effects in the system. For instance, when host banks (foreign banks) experience difficulties in their home country, they undertake measures that expose the home banking market to liquidity and other potential under positions (ADB & ASEAN 2013). Another concern is the free flow of capital mobility. For example, the freedom of cross-border transactions may incentivize manipulative entrants to engage in speculative activities (ADB & ASEAN 2013). They could inject an influx of capital flow to increase the volatility of capital inflow in any member country for the purpose of exchange-rate speculation and thereby destabilize the country's monetary policy and economy at a broader level (ADB & ASEAN 2013).

3.5.5 BARRIERS TO ASEAN-WIDE BANKING INTEGRATION

The ASEAN Banking Integration Framework (ABIF) that was endorsed by central bank governors in 2011 recognized the gap in financial sector development, economic structure, and the priority agenda in each member state. The current banking integration is at the two-country level or a reciprocal bilateral arrangement and aims to reach multilateral liberalization by 2020 in commercial banking services. Despite some progression on the ABIF, there are particular issues that challenge ASEAN-wide banking integration.

First is the regulatory harmonization among member states. A fully integrated banking system requires financial institutions and market operators to abide by one single set of rules and regulations (ADB & ASEAN 2013). In practice, it is almost impossible to achieve these given different stages of financial services and regulatory framework developments and national sovereignty attainments (ADB & ASEAN 2013). The most critical question on developing a uniform regulatory structure is how to produce standardized rules and regulations among ASEAN members states that are applicable to members with less-developed financial markets without compromising the rules and regulations of members with more developed markets (Wihardja 2014). Hence, the ASEAN technical team divided the regulatory issues into six categories to assess the integration capability of each member state, including: entry and licensing, capital stringency, supervision, empowerment of supervisors to take prompt corrective actions, restrictions of risk management procedures, and transparency (ADB & ASEAN 2013). It appears that the gap is wide, especially the differences between top tier performers (Singapore, Malaysia, Indonesia, Thailand, and Philippines) and the bottom tier (Brunei, Cambodia, Laos, Myanmar, and Vietnam). Wihardja (2014) also identified uniform rules and regulations as the main barrier to integration, in particular, the harmonization of principles of prudential regulations. Similarly, the prudential regulations on which Wihardja (2014) focused are bank accounting standards and disclosure requirements, minimum capital requirements, prompt corrective actions and a methodology for the resolution of failed banks, restrictions on large exposures, anti-money laundering and consumer protection regulations.

Also, a reluctance to move toward deeper institutionalization is another barrier to banking integration (Sukma 2014). Despite a mandate spelled out in the ASEAN Charter and a more integrated ASEAN Economic Community, there is still an unenthusiastic effort by members' states to push for greater regional institutionalization that would transform into supra-national organizations. The lack of willingness to turn to regional institutions is confined by concrete attachment to principles of national sovereignty and an individual preference for maintaining unity (Sukma 2014). For this reason, banking integration is led by multilateral agreements between countries or in other words, an inter-government form of regional cooperation (Sukma 2014). What this means is that the decision-making procedure is led by the consensus principle and ASEAN continues its preference of non-binding agreements and informality. Therefore, the establishment of a supra-national level institution to oversee and regulate financial integration and banking integration in particular is imperative to push for deeper integration.

Another barrier to banking integration is the lack of a regional stable financial infrastructure (Wihardja 2014). This has been identified as a pre-condition for the ABIF to prevent and respond to unforeseeable financial crises (Wihardja 2014). Hence, the ASEAN+3 Macroeconomic Research Office (AMRO) was established in 2011 to act as an independent macro-prudential monitoring and surveillance agent within the region. Also, Chiang Mai Initiative Multilateralization (CMIM) was created to supposedly serve as a mechanism for a regional financial safety net. Unfortunately, this basket of funds is yet to receive real commitment. Other stable financial infrastructure that are still absent include a regional crisis management protocol, a regional payment and settlement system, and a supranational agency that has the power to exercise cross-borders prosecutions (Wihardja 2014).

3.6 SUMMARY

ASEAN banking integration is a clear solid goal of all ASEAN members. The benefits that it would bring will be enormous to regional economic development and the shared banking system. Nevertheless, integration should proceed cautiously, taking into consideration the risks identified including contagious risks (common lender effect and wake-up call effect), spill-over effect and manipulation of the free-flow of capital mobility. At the same time, some barriers still persist such as regulatory framework differences, reluctance toward deeper institutionalization and the lack of a regional financial stability net.

Of the three barriers, ASEAN is working progressively on filling the gap in regulatory differences. For instance, the ASEAN economic community 2025 strategic action plan for financial service integration from 2016-2025 aims to achieve a number of targets, two being to accomplish "*greater coherence of banking regulations for the ASEAN member states to support financial integration*" and the *"convergence of prudential regulation"* (ASEAN 2016a). In regard to bank corporate governance rules and guidelines, differences are reflected in each country's standard instrumentalized by their own banking authorities. Table 3.4 details the banking supervisory arrangements and corporate governance rules and guidelines for banks in each of the ASEAN countries. It is therefore fundamental for the study to discover the gaps in all these guidelines and rules. The finding of this study aims to fulfill the gap through a more in-depth analysis of ASEAN and its bank governance arrangements that contribute to both the academic contribution and providing practical insights into the regulator's effort of the ASEAN banking system integration.

Table 3-4. The ASEAN bank supervision-arrangement and governance frameworks. (Author's compilation)

	Number of commercial banks	**Financial sector supervisory arrangement**	**Banking supervisor**	**Bank's corporate governance law/guideline**
Brunei	9	Integrated	Central bank	Guideline number BU/G-1/2017/5 "Guidelines on corporate governance for banks" 2017
Cambodia	43	Sectoral	Central bank	"Prakas on governance in bank and financial institution" 2008
Indonesia	120	Integrated	Independence agency	"Regulation of … implementation of good corporate governance for commercial banks" 2006
Laos	43	Sectoral	Central bank	"Law on Commercial Banks (revised) number 56/NA" 2018
Malaysia	42	Partial-Integrated	Central bank (licenses grant by MoF)	"Corporate Governance" 2019
Myanmar	44	Sectoral	Central bank	"Financial Institution Law 2016" (Chapter 10)
Philippines	43	Sectoral	Central Bank	"Enhanced Corporate Governance Guidelines for BSP-Supervised Financial" 2017
Singapore	160	Integrated	Central Bank	"Banking Corporate Governance Regulation" 2005
Thailand	30	Sectoral	Central Bank	"Corporate Governance of Financial Institutions" 2017
Vietnam	48 (including 5 state-owned)	Sectoral	Central Bank	"Law on Credit Institutions" 2010 (Chapter 3)

CHAPTER 4 RESEARCH FRAMEWORK

4.1 INTRODUCTION

Chapter three on the context of the study provided a deeper discussion specifically into ASEAN countries within the context of the governance and banking system, which is complementary to the literature review in chapter two on the theories, definitions and development of corporate governance in a general context. Underpinned by the foundation of chapters two and three, this chapter draws on references from the theories and findings to constitute a research framework. This chapter explains the fundamental components of the research framework for this study.

There are seven sections in this chapter. After the introduction is the section that details the explicit objectives of the research. Section three provides the main research question and the four sub-questions corresponding to the research objectives set out earlier. Section four addresses the theoretical issues and justifies the use of stakeholder theory, corporate governance convergence theories, and BCBS's bank governance principles in the research framework. Section five described the development of research propositions that are based on the literature review. Section six explains the selection of the research variables of the bank governance components being used throughout the study. Section seven is the description of the research framework that illustrates how the research is conducted and analyzed, the framework figure provides an overall image of the research design. The chapter closes with section eight, the conclusion.

4.2 RESEARCH OBJECTIVES

The rationale that led to the development of the research objectives is based on the following issues. In chapter two, the review centered on the explanation of corporate governance starting with theoretical specifications, country-specific and international development, and major international guidelines. Arguments over convergence and divergence consensus were also discussed. It was found that there is weighty evidence in favor of convergency in reference to E.U. banking integration. In chapter three, the study described the structure of the banking system in the ASEAN and banks' corporate governance frameworks in each country. The concluding remarks showed that the current arrangement of banks' corporate governance frameworks in ASEAN are asymmetrical and restrict the process of ASEAN banking integration. The discussion disclosed the need to clarify the benefits of convergence in corporate governance standards (chapter 2) and the need for a more coherence regulatory framework in the ASEAN banking industry (chapter 3), and the research addresses these issues.

Therefore, based on the above, the main goal of this research is to contribute to the gap in the theories of governance convergence in developing countries by assessing the value of corporate governance convergence theories to achieving increased coherency in ASEAN bank governance frameworks and to also assess the value and practicality of implementing a single standard in bank governance in the ASEAN banking system.

To reach the main research goal, there are four objectives to be achieved. First, to develop criteria by which to assess the gaps and similarities in the bank governance guidelines currently in place in various ASEAN countries. Second, to evaluate the compliance of the banking governance standards in each country with the BCBS's standard. Third, to provide information on the introduction of a single standard on bank governance in the ASEAN banking system while giving regard to the level of differences in the current frameworks/principles and convergence theories in the literature. Fourth and last, to provide recommendations on the prospect of the ASEAN's bank governance standard as to whether to converge to the previous patterns toward the Western-based international guidelines particularly the BCBS's governance principles for banks or whether to diverge to its own design which best responds to ASEAN's identifies.

4.3 RESEARCH QUESTIONS

Having established the research issues, goal and objectives, the study has led to:

Main research question: Is it possible for ASEAN countries' banking frameworks to converge toward a single standard of bank corporate governance? What recommendations can be made to achieve increased coherency in ASEAN bank governance frameworks? (In the light of stakeholder theory, guided by BCBS's corporate governance guidelines, and based on theories of convergence in the literature)

To provide an answer to this query, there is a sequence of sub-questions to be addressed. The first sub-question is fundamental to the research and it serves as the first objective of the research which is to assess the gaps and similarities in the bank governance guidelines of each of the ASEAN countries. Hence, the first sub-question is:

Sub-question 1: What are the present rules of governance in ASEAN banks and are there common and different rules in terms of:

4.1. Shareholder's rights and key ownership functions
4.2. Board of directors (responsibilities, expertise, structure and remuneration)
4.3. Disclosure and transparency

The second sub-question corresponds to research objective number two which is to evaluate the compliance of the ASEAN countries' bank governance rules with the BCBS's standard. The measurement involves a Guttman scale measurement method applied to the 56 closed-ended questions based on the BCBS's bank governance standard. The result may suggest the country's readiness in terms of adoption of the ASEAN single-standard bank governance. Thus, the sub-question is:

Sub-question 2: To what extent do the governance rules of each ASEAN country comply with BCBS's principles? Which countries demonstrated the most and the least alignment?

The third sub-question corresponds to research objective number three which aims to provide information on the prospect of the ASEAN single standard on bank governance based on convergence theories. As identified in the literature review chapter, convergence in corporate governance practices is driven by three main forces: the presence of institutional investors, the inflow of FDIs, and the shift toward an emerging shareholder class. On the other hand, there are six divergence forces: poor investor legal protection, different competitive strategies, different corporate identifies, effectiveness of political stability, level of social democracy, and the domination of family-capitalized corporates. Therefore, the sub-question is:

Sub-question 3: What do the theories suggest on the likelihood of the convergence toward an ASEAN single-standard bank governance?

Lastly, sub-question number four addresses the fourth research objective which is to recommend whether it is better for an ASEAN's singe bank governance standard to converge on the path toward Western-based guidelines (the BCBS's governance principles for banks) or diverge toward a unique design that responds to the ASEAN countries' different identities. Thus, the sub-question is:

Sub-question 4: What is the most suitable model for ASEAN bank governance based on convergence theories? Is it to converge toward the Western-based corporate governance model or to diverge toward its own design?

4.4 THEORETICAL JUSTIFICATIONS

4.4.1 Stakeholder theories

A series of current academic debates on stakeholder governance is found in the Harvard Law School Forum on Corporate Governance (HLS 2020). In his latest study, Bebchuk and colleagues rejected the current consensus on the shift toward stakeholder centric positions called by influential institutions such as the Business Roundtable, the World Economic Forum, the UK Financial Reporting Council, the European Union High-Level Expert Group on Sustainable Finance, and the recognition of the inclusiveness of stakeholders as stipulated in the OECD principles of corporate governance (Bebchuk, LA & Tallarita 2020; Lipton, Lipton & Katz 2020; OECD 2015). Professor Bebchuk stressed the contradiction to the rise of what they called "stakeholderism" a concept where leaders must consider the interests of all stakeholders (not just shareholders) in making business decisions. He asserted that stakeholder capitalism should not be expected to benefit stakeholders but the opposite would impose tremendous costs on stakeholders and society, not just shareholders (Bebchuk, LA & Tallarita 2020). His argument supported the activist hedge fund managers who view stakeholder governance as a big threat to the hedge funds business model which is heavily and lucratively reliant on uncertainty and an enemy to long-term and sustainable growth in business value. On the other hand, there are a myriad of academic reactions and articles in the Financial times that rejected Bebchuk's and the hedge fund managers' position (Lipton, Lipton & Katz 2020). Lipton, Lipton and Katz (2020) collated a series of academic movements that asserted the departure of the shareholder primacy model in favor of stakeholder governance, including the practice of recognizing environment, social and governance (ESG) interests.

The framework in the current research has adopted corporate governance stakeholder theory. As justified in the literature review chapter, the latest view is that a corporation's purpose is not just to maximize shareholder value but to meet a bigger social purpose. Indeed, corporations should be socially responsible for the public's interest, especially when their capital structures are strongly linked to public ownership, such as is the case in banking institutions.

Another reason for the adoption of Stakeholder theory was due to the relevance of its tenet to banking corporations for the reason that its asset and equity structures involve the public, commercial entities, government entities, non-government organizations, local and international communities, and so on whether directly through products and services or indirectly influenced by the ripple-effect in an event of crisis. For instance, retail customers, private and public entities, etc. deposited their funds in a bank, in which the bank uses those funds to lend to third parties. The whole process creates a chain of relevance stakeholders that rest their interests in the bank operation.

Based on the principle of stakeholder theory, the issues concerning a bank's governance are diverse. The pressing issues identified in the corporate governance literature are shareholder rights, board of directors (responsibilities, expertise, structure, and remuneration) and accountabilities through disclosure and transparency. Figure 4.1 illustrates the corporate governance issues in stakeholder theory. The framework is based on the literature review on governance theories and draws on previous research on the factors affecting convergence and divergence.

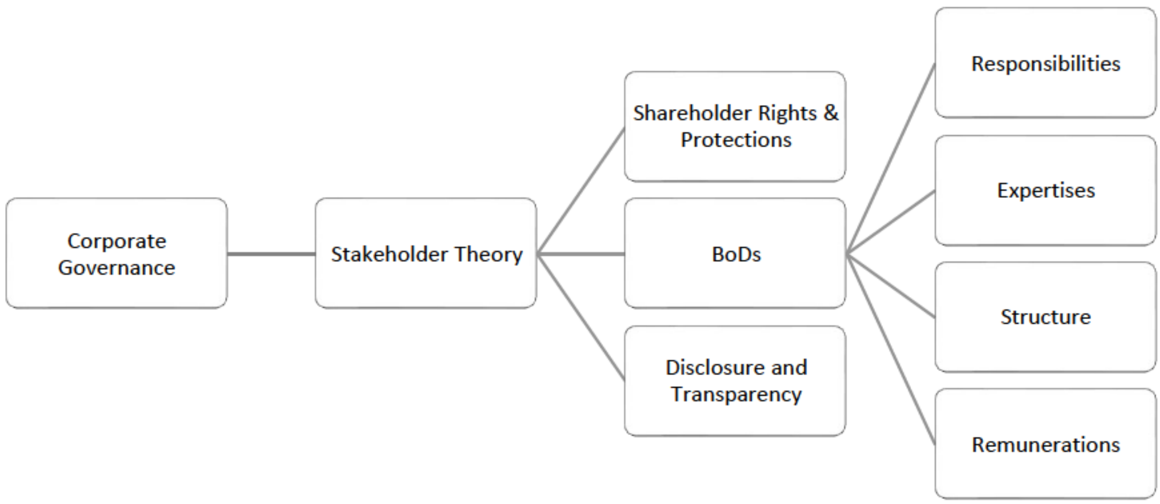

Figure 4-1. Stakeholder Theory and Corporate Governance Components. (Author's construct)

4.4.2 Corporate governance convergence theories

The convergence of corporate governance is a controversial topic whether on a bilateral, regional, or global basis. Based on the literature review in chapter two, Figure 4.2 provides a summary of the driving forces of the convergence and divergence of corporate governance. The convergency phenomenon is believed to intensify by three forces while six others are believed to fuel divergency. They form the basis of the research framework.

It is noted that there are a number of other forces identified in the academic literature, such as religious differences, the country's economic restrictions and sanctions, individual corporate culture and norms, the value of the leadership team, etc. However, these forces are beyond the research scope and fall short in the research context, hence they are not selected for the study. The research scope is limited to four premises identified and categorized in the literature review chapter: legal and ownership structure influences, political ideologies and interests, culture traits, and economy and institutional factors.

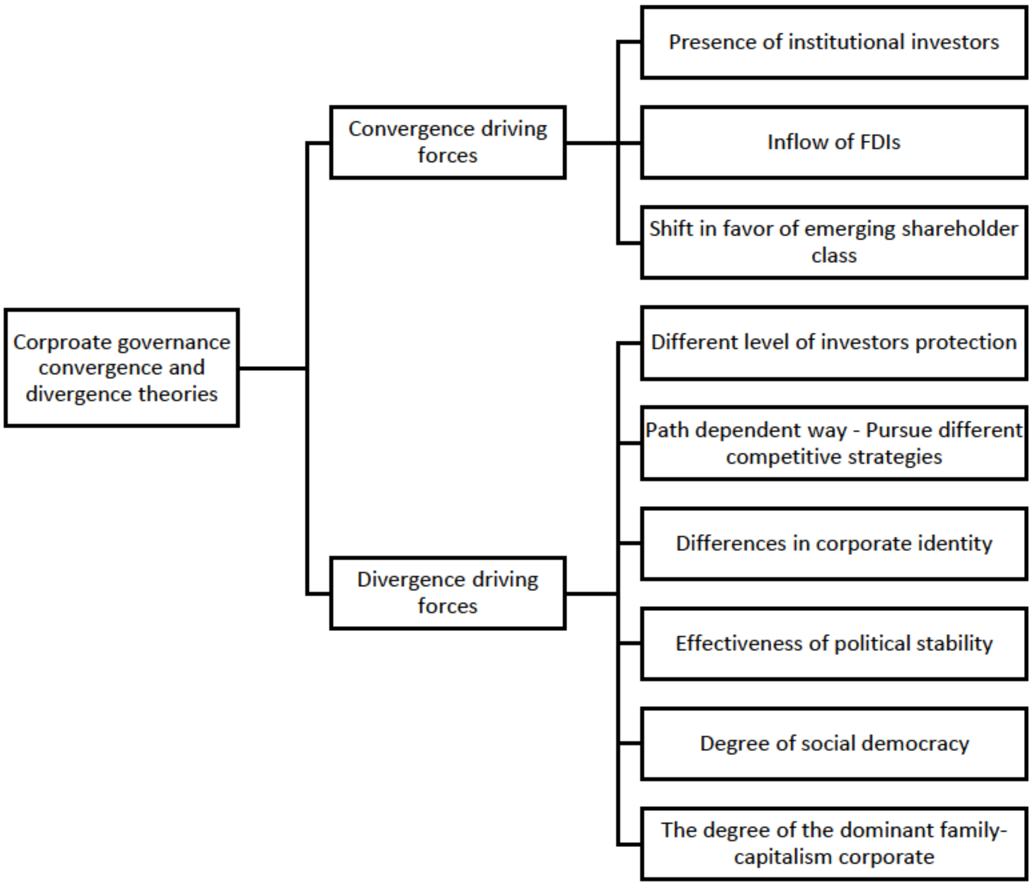

Figure 4-2. Corporate governance convergence and divergence driving forces. (Author's construct)

4.4.3 BCBS's corporate governance principles for banks

The criteria for developing governance indices are based on the Basel Committee on Banking Supervision's Guidelines on Corporate Governance Principles for Banks. As explained in the literature review, it is a universally accepted bank governance guideline set forth by the Basel Committee on Banking Supervision - BCBS (the primary global standard setter for the prudential regulation of banks comprising 45 members including all G20 countries except

South Korea). The BCBS's principles are recognized and derived from OECD's principles, yet provide addition specificities on the risk governance of banks.

The guidelines contain 13 principles. However, the study is based on five principles of the guidelines to assist in indices development. The other eight principles are beyond the research scope and limit. The reasons that the study was based on five principles (principle 1,2,3,11&12) from BCBS's corporate governance principles for banks were due to the ownership structure and nature of the studied entities (banks). As elaborated and justified in chapters two, four and five, the study adopted the tenet of Stakeholder theory which was more applicable and relevant to the banking institutes given the diverse interests and stakes of internal and external parties. Agency theory was overstepped due to its strong focus on owners'-managers' relationship, which is less relevant in banks. Noted, it is required by law to cap the percentage of majority shareholders of a bank at a certain threshold. Nonetheless, it was not to say that other principles are not important for bank governance. However, due to thesis size, word count, and time constraints, the thesis was focused on these six principles (plus the OECD/G20's corporate governance principle number two as explain below). The other principles shall be suitable for future studies. The five principles included in this study are:

Principle 1: Board's overall responsibilities
Principle 2: Board qualification and composition
Principle 3: Board's own structure and practices
Principle 11: Compensation
Principle 12: Disclosure and transparency

4.4.4 OECD/G20's corporate governance principles

To achieve the research scope, the study extends beyond BCBS's guidelines to the OECD/G20's principles of corporate governance regarding shareholder rights and treatment (BCBS's guidelines do not contain the principle). The justification for the extension to OECD/G20's principles over others is because, as mentioned earlier, the Basel principles recognize the OECD/G20's principles and its complementarity. OECD/G20 principles of corporate governance have been a benchmark for national governments to establish and develop its regulatory frameworks as well as a handy source for investors, companies and other stakeholders to consult on good corporate governance (OECD 2015). In particular, the study will focus on the second of the six OECD/G20's principles:

Principle 2: The rights and equitable treatment of shareholders and key ownership functions (in the circumstance relevant to banks)

4.5 PROPOSITION DEVELOPMENT

The research propositions are presented in four sections where each section is designated to sequentially suit the four research sub-questions. The first section states the proposition on the practices of bank governance across ASEAN countries on common and different practices. The second section provides a proposition on the aspect of cross-countries' level of bank governance compliance to the BCBS's principles. Because these two facets of ASEAN bank governance are unprecedented and unstudied, the propositions are made on the notions obtained from the literature review. The third section is made up of nine propositions on the profile of bank governance convergence tendency based on corporate governance convergence theories from the literature. The subsequent section states the proposition on the premise of the optimal choice of the ASEAN bank governance model whether to converge toward the Western-based or to diverge toward its own design. The proposition is made based on the notions from convergence theories.

4.5.1 ASEAN Bank governance rules

Proposition 1

Chuanrommanee and Swierczek (2007) studied Asian corporate governance on a cross-countries basis. The purpose of the study was to assess the practices of governance in financial corporations in alignment with OECD's principles. They found that the level of practices varied across countries. However, no previous study attempted to identify the pattern of governance framework of banking institutes within ASEAN countries. The level of commonality and differential is unidentified and unknown. Nevertheless, this study sets out to solve the issue via its first research objective which is to assess the gaps and similarities in the bank governance guidelines currently in place in various ASEAN countries. Having shown that no existing studies address the gaps, the proposition is based on the literature reviewed in chapters two and three. The following is the proposition of the practices of ASEAN bank governance.

P 1: *There is a multiplicity of bank governance rules across ASEAN countries.*

4.5.2 Countries' compliance

Proposition 2

The assessment of the level of corporate or country compliance to any particular governance principles is not generally the aim of an academic research study. However, there are a number of international organizations that conduct these assessments. For instance, the ASEAN Corporate Governance Scorecard (discussed in chapter three) initiative measures corporate governance compliance of the general corporation in the ASEAN-six countries based on self-reporting regime. Meanwhile, the Asian Corporate Governance Association publishes once every two years the regional survey of public and private corporate governance in 12 markets of Asian-Pacific countries that score the market in the areas of government and public governance, regulators, governance rules, listed companies, investors, auditors, and civil society (and media).

As for the quest to adequately address the main research question of this study, one of the research objectives is to assess the countries' bank governance in compliance with the BCBSs. Having explained that there is no precedented study particularly in the banking field, the research proposition is being made likewise to the previous proposition that is based on the notions from chapter two and three. The proposition is as follows:

P 2: *The level of bank governance rules of ASEAN countries which comply with BCBS's principles vary from country to country.*

4.5.3 Governance convergence tendency

The following are extractions of convergence theories from the literature review that are the foundation to the development of propositions on the governance convergence tendency. There are 9 propositions to be made which are organized into four different premises: legal and ownership structure influences, political ideologies and interests, culture traits, and economy and institutional factors. These propositions and their justifications are as follows.

4.5.3.1 The premise of legal and ownership structure influences

Proposition 3.1

In a series of publications, La Porta and colleagues asserted that there is a diversity of corporate governance models resulting from an attempt by investors to surmount poor legal protections in different jurisdictions (LaPorta, Lopes-de-silanes & Shleifer 1999; LaPorta et al. 2000; LaPorta, Silanes & Shleifer 1998). For instance, they compared investor legal protections in nearly 50 countries and found that legal rules pertaining to shareholder protections are different across countries, where countries of a common-law system generally have the strongest protections and countries with the French civil-law system have the weakest protections (LaPorta, Silanes & Shleifer 1998). Therefore, this view led to the following proposition:

P 3.1: *The heterogenous ASEAN bank governance rules suggest that legal systems across ASEAN countries vary.*

Proposition 3.2

O'Sullivan (2000) reported that the presence of institutional investors imposes pressures on a company to converge toward the Western-based system that required a more transparent and shareholder-friendly model. For instance, institutional investors tended to hold a larger share of the company than individual investors which allowed them to influence and pressured the decision-making mechanism. By adopting this view and applying it at the country level, it led to the following proposition:

P 3.2: *The heterogenous ASEAN bank governance rules suggest that there is a relatively low number of banks within ASEAN are ultimately owned (50.01%) by institutional investors.*

Proposition 3.3

In their well-recognized report that explains the increased uniformity of corporate laws and governance, Hansmann and Kraakman (2001) stated that there is a shift of interest in favor of the emerging shareholder class. The ideology of shareholder primacy is likely to encourage countries to shift toward similar rules of corporate laws and governance (Hansmann & Kraakman 2001). For instance, traditionally, a small group of wealthy elites own company stocks, but as witnessed in modern capitalism, share owners have become pervasive since the start of the twentieth century (Hansmann & Kraakman 2001). Therefore, it led to the following proposition:

P 3.3: *The heterogenous ASEAN bank governance rules suggest that there has been a relatively large increase in the number of controlling shareholders within ASEAN over the last 10-year period.*

4.5.3.2 The premise of political ideologies and interests

Proposition 3.4

Roe (2003) asserted that corporate governance diffusion will not occur based on political capabilities. He investigated the impact of politics on a number of issues such as political forces, party systems, political institutions, political orientation of governments and coalitions, ideologies, and interest groups. One of his central political investigations is the degree of social democracy in which he found that one way to achieve strong social democracy is to gain a strong voice inside the industry. He stated that in a jurisdiction of strong social democracy, there is a tendency for low shareholder ownership concentration and weak shareholder rights and vice versa (Roe 2003). This corporate governance phenomenon is pre-determined by the level of social democracy in a jurisdiction and these levels vary across countries (Roe 2003). Therefore, the proposition is as follows:

P 3.4: *The heterogenous ASEAN bank governance rules suggest that there are different levels of social democracy (in the ASEAN banking context) across countries.*

Proposition 3.5

Roe (2003) asserted that the functional corporate governance model does not only rely on organizational technocrats, but requires political stability in the capitalist state to avoid social turmoil such as rioting, strikes, civil war, unrest, political chaos, and unstable government (Roe 2003). Therefore, the individual governance model tends to reject governance uniformity as the conditions of political stability are not the same across jurisdictions (Roe 2003). Thus, the proposition is as follows:

P 3.5: *The heterogenous ASEAN bank governance rules suggest that there are different degrees of political stability effectiveness (measured through the World Bank's Political Stability Indicators) across countries.*

4.5.3.3 The premise of cultural traits

Proposition 3.6

Keong (2002) studied how individual country's cultural traits influenced the form of corporate governance. He provided the case of the reality of the dominant corporate forms – family based. For instance, Keong (2002) referred to LaPorta, Silanes and Shleifer (1998) who found that there are highly concentrated family-owned corporations (referred to as family capitalism), in spite of the modern equity markets and the popularity of capitalism. In this case, a willingness to relinquish corporate power is unlikely, with even some showing unwillingness to appoint independent directors as this would undermine family influence on major corporate decisions (Keong 2002). Therefore, a shift toward the American shareholder-centered model is unlikely. This led to the following proposition:

P 3.6: *The heterogenous ASEAN bank governance rules suggest that a relatively large number of banking institutes within ASEAN are ultimately owned (50.01%) by an individual or a family.*

4.5.3.4 The premise of economy and institutional factors

Proposition 3.7

Money managers and financial experts in globalized financial investment would prefer companies to be practical in relation to shareholder rights, shareholder value maximization, and be transparent in relation to financial results and activities (Guillen 2000). With the growth of global foreign direct investments and portfolios as well as the increased number of powerful multinational corporations, less developed countries and those which are funds recipients tend to adopt the corporate governance practices of the fund-originating countries, commonly the free capital markets of the shareholder-centric model (Guillen 2000). Thus, there proposition is as follows:

P 3.7: *The heterogenous ASEAN bank governance rules suggest that a relatively low number of banks within ASEAN are ultimately owned (50.01%) by foreigners (combined) through direct or total participation.*

Proposition 3.8

Bebchuk, Lucian and Roe (1999) explained a path-dependent phenomenon where countries and firms pursue different competitive strategies in the global economy that involves their unique institutional approach and a different set of corporate governance systems, for example, the Japanese Keiretsu model, the German Technik model, the French model of elite engineering, and the American approach which focuses on individualism, entrepreneurship and customer satisfactions, etc. (Bebchuk, Lucian & Roe 1999). Thus, the theory justifies the following proposition:

P 3.8: *The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in competitive advantage (measured through aggregated sectoral data on trades in products and services) across countries.*

Proposition 3.9

Clarke (2007b) stated that by adopting and implementing some of the formal elements of corporate governance from one system to another may result in critical problems, given that corporate governance features are contexture and differ by activity and industry. In this sense, a system of optimal corporate governance must not consider only the finance, legal, and ownership structure but rather, it should complement the individual corporate identity of institutions, such as labor relationships, scarce resources, compensation schemes and so on (Clarke 2007b). Therefore, it rationalized the following proposition:

P 3.9: *The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in banking institutes' identities (measured through sectoral aggregated credit portfolio outstanding) across countries.*

4.5.4 Prospective model of ASEAN single-standard bank governance

Proposition 4

The question of whether a country which has either poor or no corporate governance should adopt the Western-based corporate governance system or design its own system is one of the common research question within the context of general corporate governance studies (Leong 2005). Some scholars who are proponents to the convergence view (Branson 2001; Cheffins 1999; Cunningham 1999; Hansmann & Kraakman 2001) have provided compelling evidence regarding the phenomenon of governance convergence. Some scholars (Bebchuk, Lucian & Roe 1999; Chuanrommanee & Swierczek 2007; Keong 2002; Khan 2004; LaPorta, Lopes-de-silanes & Shleifer 1999; Roe 2003) have rejected such a phenomenon and asserted that governance diversity is still the case around the world. All of their studies and explanations are based on the evidence surrounding the premise of legal and ownership structure influences, political ideologies and interests, cultural traits, and economic and institutional factors. Taking this debate to a further extent, one could raise the question of an alternate corporate governance path, for instance what option yields the optimal outcome, either to focus on a hybrid model (combining the best and second-best) or converge wholly to a single model (what is thought to be the best system) (Cernat 2004).

In the context of ASEAN convergence, Chuanrommanee and Swierczek (2007) asserted that the best alternative for ASEAN is to develop its own system of corporate governance and international principles such as OECD's corporate governance guideline or the Cadbury Code of Best Practices developed in the West is not applicable to the ASEAN context. There is no other study has addressed this question in the context of ASEAN, especially in the banking sector.

Based on these studies, to address the question of whether ASEAN's singe bank governance standard is better off converging on the path toward Western-based guidelines (BCBS's governance principles for banks) or diverge toward its own unique design, the study has developed the following proposition:

P 4: *The regional ASEAN bank governance framework should shift toward its own system design.*

4.6 RESEARCH VARIABLES – Bank Governance Indices

The development of the indices is for the purpose of identifying common and different practices across ASEAN countries and evaluating country bank governance compliance with the BCBS's and OECD standards. To do so, there are several conceptual issues on the use of corporate governance indices methodology which should be considered, however an explanation and justification will be given in chapter five on the research methodology in the section entitled indices development. There are three governance attributes included in the indices: shareholder's rights and key ownership functions (10 variables), board of directors (38 variables), and disclosure and transparency (8 variables). The board of directors' attribute consists of four sub-attributes: overall responsibilities (12 variables), qualification and composition (9 variables), board structure and practices (11 variables), and compensation practices of the board (6 variables). Overall, the indices consist of 56 variables weighted equally. Table 4.1 details all the variables according to different governance attributes. It also includes a description of the variable for assessment purposes.

Table 4-1. Research Variables.

Bank Governance sub-attributes	Specification	Variables	Description	Sources
Shareholder's rights and key ownership functions				
	Key ownership functions	Secure methods of ownership registration	Equal one if written or implied that shareholders have the right to secure methods of share ownership registration. Nil if otherwise.	OECD/G20 Principles of corporate governance (2015) – Principle 2
		Convey or transfer shares	Equal one if written or implied that shareholders have the right to convey or transfer share ownership. Nil if otherwise.	
		Obtain corporate information on a timely and regular basis	Equal one if written or implied that shareholders have the right to obtain (basic level) corporate information on a timely and regular basis. Nil if otherwise.	
		Allowed to consult with each other on issues concerning their basic shareholder rights	Equal one if written or implied that shareholders have the right to consult with each other on issues concerning their basic shareholder rights. Nil if otherwise.	
	Voting rights (Noted, shareholder refers to a holder of the company's shares regardless of amount and whether they are local or a foreigner)	Right to vote in general meetings	Equal one if written or implied that shareholders have the right to participate and vote in general shareholder meetings. Nil if otherwise. *(If not, skip next variable. Next variable automatically scores nil)*	
		Right to obtain information	Equal one if written or implied that shareholders have the right to be given sufficient and timely information (including voting procedures) concerning general shareholder meetings. Nil if otherwise.	
		Right to vote to elect/remove board members	Equal one if written or implied that shareholders have the right to elect and remove members of the board. Nil if otherwise.	
		Right to vote on material changes	Equal one if written or implied that shareholders have the right to vote on material changes such as article of incorporation, authorization of additional shares, and extraordinary transactions. Nil if otherwise.	
		Proxy right	Equal one if written or implied that shareholders have the right to vote in person or in absentia (proxy) and equal effect should be given to votes cast in either way. Nil if otherwise.	
		Electronic voting right	Equal one if written or implied that shareholders have the right to cast votes electronically regardless of in-shore or off-shore location. Nil if otherwise.	

Board of directors				
Overall responsibilities of the board	Responsibilities	Identified own responsibilities	Equal one if written or implied that the board clearly laid out key responsibilities and authorities of the board itself, senior management and control functions. Nil if otherwise.	BCBS Corporate governance principles for banks (2015) – Principle 1
		Approval of business plan	Equal one if written or implied that the board should approve the bank's business objectives and strategy and monitor their implementation. Nil if otherwise.	
		Maintain and update organizational changes	Equal one if written or implied that the board should maintain and update organization rules, setting out its organization, rights, responsibilities and key activities. Nil if otherwise.	
	Corporate culture and values	Reinforce tone at the top	Equal one if written or implied that the board should promote a sound corporate culture by reinforcing "tone at the top", including but not limited to setting corporate values, communicating them, and promoting risk awareness. Nil if otherwise.	
		Definitive code of conduct/ethics	Equal one if written or implied that the board should ensure the bank's code of conduct/ethics defines acceptable and unacceptable behaviors. Nil if otherwise.	
		Oversight of whistleblowing policy	Equal one if written or implied that the board should oversee the whistleblowing policy mechanism and ensure that legitimate issues are addressed and staff who raise concerns are protected. Nil if otherwise.	
	Risk appetite control	Define risk appetite, policy, position	Equal one if written or implied that the board (along with the chief risk officer) should establish and oversee the risk appetite statement, risk policy, and risk positions. Nil if otherwise.	
		Oversight of risk governance framework	Equal one if written or implied that the board should oversee and ensure a proper structure for a risk governance framework that consists of three lines of defense (1st business line, 2nd risk management and compliance function, and 3rd internal audit). Nil if otherwise. *(If not, skip next variable. Next variable automatically scores nil)*	
		Oversight of effective risk governance framework	Equal one if written or implied that the board should ensure that the second (risk management and compliance) and third (internal audit) lines of	

			defense carry out responsibilities independently from business line, objectively and effectively. Nil if otherwise.	
		Oversight of disciplinary actions of risk governance framework	Equal one if written or implied that the board should ensure that the bank risk governance framework includes disciplinary actions for the breach of risk limits. Nil if otherwise.	
	Oversight of management	Approve selection of CEO, executives, and heads of control function	Equal one if written or implied that the board should approve the selection of the CEO, senior management, and heads of control function. Nil if otherwise.	
		Hold senior management to accountable practices	Equal one if written or implied that the board should oversee senior management and hold them accountable for their actions and enumerate possible consequences. Nil if otherwise.	
Qualifications and composition of the board	Board composition	Sufficient number of independent directors	Equal one if written or implied that the board comprises a sufficient number (not less than 1) of independent directors. Nil if otherwise.	BCBS Corporate governance principles for banks (2015) – Principle 2
		Sufficient bundle knowledge and skills	Equal one if written or implied that collectively, board members should have a range of knowledge and experience (but not limited to) in capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance and management skills. Nil if otherwise.	
		Effective board member attitude	Equal one if written or implied that the individual board members' attitudes should facilitate communication, collaboration and critical debate in decision-making processes. Nil if otherwise.	
	Selection and qualifications	Integrity record	Equal one if written or implied that the board candidates should have a record of integrity and repute. Nil if otherwise.	
		Sufficient time to dedicate	Equal one if written or implied that the board candidates should have sufficient time to fully carry out board responsibilities. Nil if otherwise.	
		Induction program	Equal one if written or implied that the board should ensure that members participate in an induction or any sort of training program related to directorship. Nil if otherwise.	
		Board candidates’ nomination	Equal one if written or implied that the bank should have a nomination committee or equivalent body composed of independent directors to identify and nominate board candidates. Nil if otherwise.	

		Board selection protocol	Equal one if written or implied that the board/nomination committee should have a clear and rigorous process for identifying, assessing and selecting board candidates. Nil if otherwise.	
		Actions toward director disqualification	Equal one if written or implied that in case a board member ceases to be qualified or is failing to fulfill their responsibilities, the board should take appropriate actions including notify banking supervisor. Nil if otherwise.	
Board structure and practices	The chair of the board	Independent chair of the board	Equal one if written or implied that the chair of the board should be an independent or non-executive board member. Nil if otherwise.	BCBS Corporate governance principles for banks (2015) – Principle 3
		Chairman is not CEO	Equal one if written or implied that the chair of the board should be different person from the CEO. Nil if otherwise. *(If affirmative, skip next variable. Next variable automatically scores one)*	
		Designated a lead board member	Equal one if written or implied that in jurisdictions where the chair is permitted to assume executive duties, the bank should designate a lead board member or senior independent board member, with a majority of non-executive directors on the board. Nil if otherwise.	
	Board committees	Specialized independent board committees	Equal one if written or implied that a board may establish certain specialized board committees and the chairs of the committees at board level should be an independent board member. Nil if otherwise.	
		Charter of the specialized independent board committees	Equal one if written or implied that each committee should have a charter or other instrument mandated by the full board that sets out its mandate, scope, working procedures. Nil if otherwise.	
		Compulsory audit committee	Equal one if written or implied that systematically important banks should establish an audit committee whereas for other banks, this is recommended. Nil if otherwise.	
		Independence of audit committee	Equal one if written or implied that the audit committee must be entirely made up of independent or non-executive board member. Nil if otherwise.	
		Chair of audit committee	Equal one if written or implied that the chair of the audit committee should be independent and a different person from the chair of the board and other committees. Nil if otherwise.	
		Compulsory risk committee	Equal one if written or implied that systematically important banks should establish a risk committee whereas for other banks, this is recommended. Nil if otherwise.	

		Independence of risk committee	Equal one if written or implied that the risk committee must be made up of a majority of independent board members. Nil if otherwise.	
		Chair of risk committee	Equal one if written or implied that the chair of the risk committee should be independent and a different person from the chair of the board and other committees. Nil if otherwise.	
	Conflict of interest	Conflict of interest of the board	Equal one if written or implied that the board members candidates should not have any conflict of interest and undue influence from management, shareholders, or any personal, professional or other economic relationships. Nil if otherwise.	
		Conflict of interest policy	Equal one if written or implied that the board should have a formal written conflict of interest policy and an objective compliance process for implementing the policy. Nil if otherwise.	
Compensation practices	Compensation practices of the board and committee	Establishment of compensation committee	Equal one if written or implied that systematically important banks should establish a compensation/remuneration committee. Nil if otherwise.	BCBS Corporate governance principles for banks (2015) – Principle 12
		Review of remuneration practices	Equal one if written or implied that the board or committee should review remuneration plans, processes, and outcomes at least annually. Nil if otherwise.	
		Remuneration approval	Equal one if written or implied that the board together with the committee where one exists, should approve compensation for the CEO, CRO, head of compliance, and internal audit. Nil if otherwise.	
		Prudent remuneration practices	Equal one if written or implied that the remuneration structure should not incentivize executives and staff to take excessive risk. Nil if otherwise.	
Disclosure and Transparency				
	Disclosure on website and annual or periodic reports	Basic organizational information	Equal one if written or implied that the bank should disclose the bank's objectives and strategy, financial situation and performance, and organizational and governance structure accurately and in a timely manner. Nil if otherwise.	BCBS Corporate governance principles for banks (2015) – Principle 13
		Ownership and voting information	Equal one if written or implied that the bank should disclose major share ownership and voting rights accurately and in a timely manner. Nil if otherwise.	
		Board and committee information	Equal one if written or implied that the bank should disclose its recruitment approach for the selection of board members, set up of board committees and number of meetings accurately and in a timely manner. Nil if otherwise.	

		Remuneration information	Equal one if written or implied that the bank should disclose its remuneration policy and procedures accurately and in a timely manner. Nil if otherwise.	
		Related party transactions and risk exposure information	Equal one if written or implied that the bank should disclose related party transactions, risk exposure and risk management strategies accurately and in a timely manner. Nil if otherwise.	
		Website transparency	Equal one if written or implied that information should be updated promptly on the bank's website. Nil if otherwise.	
		Corporate governance disclosure	Equal one if written or implied that the bank should have an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of the annual report. Nil if otherwise.	
		Material issues disclosure	Equal one if written or implied that the bank should disclose all material developments that arise between regular reports to the bank supervisor and relevant stakeholders. Nil if otherwise.	

4.7 RESEARCH FRAMEWORK

The framework (Figure 4.3) is dedicated to resolve the aforementioned research objectives. The processes within the framework involve theories that were justified in previous sections and each process corresponds to different research objectives and questions. For example, label 1 corresponds to research sub-question number one, and labels 2, 3, and 4 correspond to research sub-questions number two, three, and four, respectively.

Based on stakeholder theory, a number of issues surround bank governance. This study has selected three important governance mechanisms which are shareholder rights, board of directors, and disclosure and transparency. The attributes of each mechanism are explained in the following variable section. By using these bank governance attributes, the study develops the bank governance indices which consist of 56 binary-scale closed-ended questions. The indices are for the purpose of assessing governance rules across the ASEAN countries via the policies study method (explained in chapter 5 on the research methodology). The start of the policies study involves the compilation of rules and policies on bank governance of ASEAN countries and catalogues them accordingly. Data compilation and its scope and limits are explained in chapter 5. Then the study assesses the bank governance indices on a country-by-country basis (labels 1 and 2). The assessment is based on the Guttman scale measurement method which is also explained in detail in the next chapter. At the end of this research phase, the findings will be sufficient to answer to research sub-questions number one and two.

The next phase of the research focuses on bank governance convergence tendency based on corporate governance convergence theories (label 3 and 4). There are different theories that make different suggestions based on the premise of explanation, ranging from legal and ownership structure influences, political ideologies and interests, cultural traits, and economy and institutional factors (as explained earlier). Discussions on each theory will be made based on data and information in subsequent chapters. The forces listed in the convergence and divergence theories in Figure 4.3 do not necessarily mean that they represent a convergent or divergent tendency. It is based on actual data and information demonstrated in chapter six on findings. Therefore, they might be translated otherwise. Deriving from the results of these findings, the next phase focused on providing answers to sub-questions three and four, and ultimately with all the previous evidence, the study will answer the main question of the research. Figure 4.3 illustrates the whole process and framework.

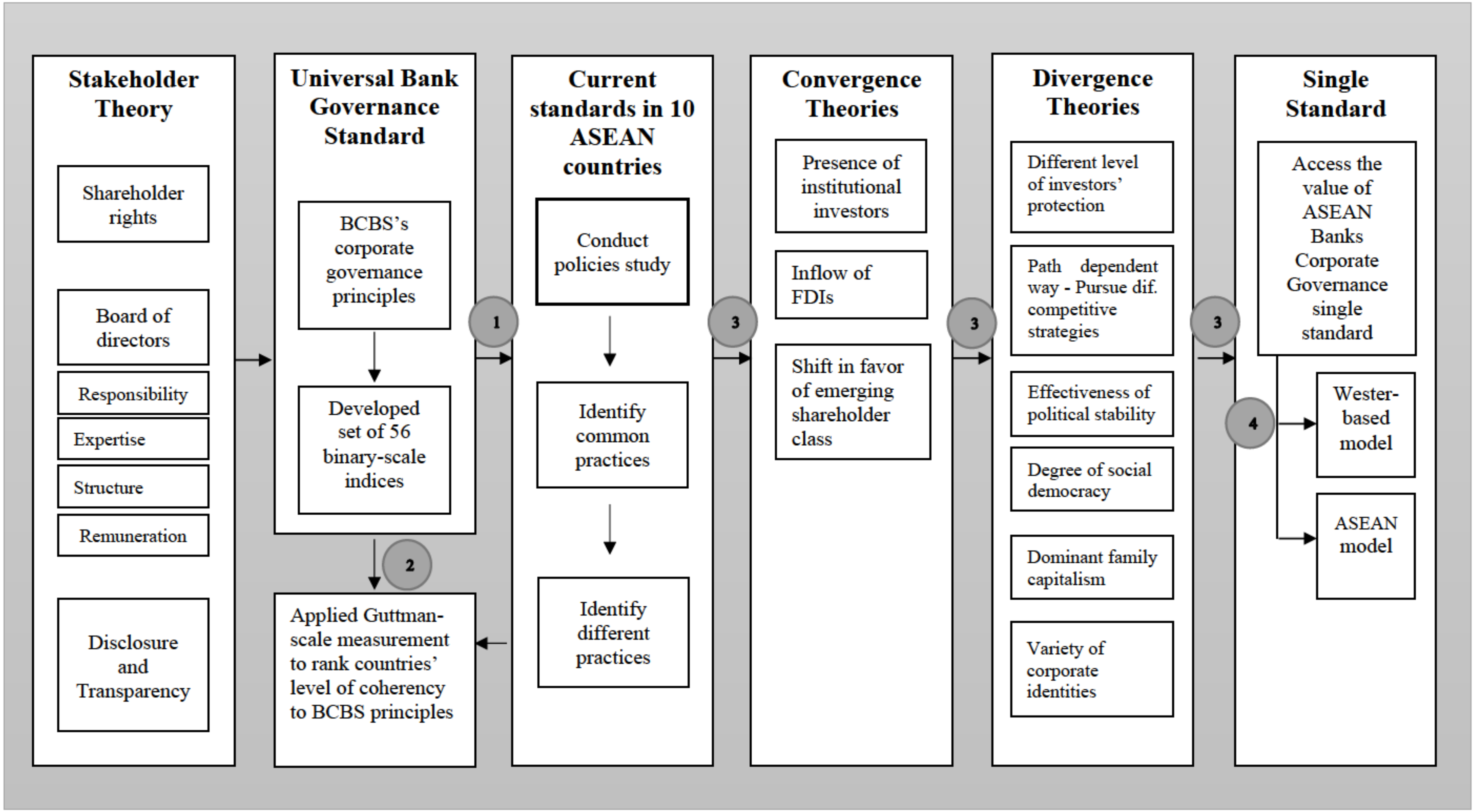

Figure 4-3. Research framework.

4.8 CONCLUSION

The research goal and objectives have been established. There are four objectives that the research aims to achieve to reach the goal. Their discussion was followed by the construct of the research main question and four sub-questions. Each sub-question corresponds to each of the four research objectives. The solution to the main research question required answers to the sequence of sub-questions. Corporate governance and convergence theories were also justified. Based on theories in the corporate governance literature, the research framework section specified the relationship between corporate governance attributes in the study and the forces of convergence and divergence. The framework is also designed to illustrate the research processes and the relationship between each process to the research objectives and questions. Research variables that are identified are based on the bank governance principles used in the study. There are a total of 56 variables categorized into six governance attributes and 14 sub-attributes. There are 12 research propositions that will be used for the analysis. Each proposition was derived from the literature review and justified accordingly one by one.

In the next chapter, the research methods are discussed in detail including the research paradigms, methodology, research subjects, scope, analysis method, indices development, and research design in general. Also, importantly, the next chapter covers the justifications for the use of the qualitative method for policy study.

CHAPTER 5 RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter explains in detail the research methodology designed to achieve the research objectives and examines the propositions established in the former chapter. First, it starts with the research paradigms that explain the research approach, philosophical view, and research perspective behind the whole research design. Then, justifications are made for the use of the qualitative methodology for applied policy research based on research designs and methods from previous theses. After this, the research method is outlined, including the research subjects, data collection methods, and information on indices development. This is followed by an explanation of the data analyses methods at three levels: individual country bank-governance data comparison, theoretical analysis of ASEAN single rulebook, and theories analysis of Western-based or ASEAN model. The chapter ends with a conclusion.

The development of the research design used in this thesis is guided by the hierarchy of research methods developed by Maylor and Blackmon (2005) as illustrated in Figure 5.1.

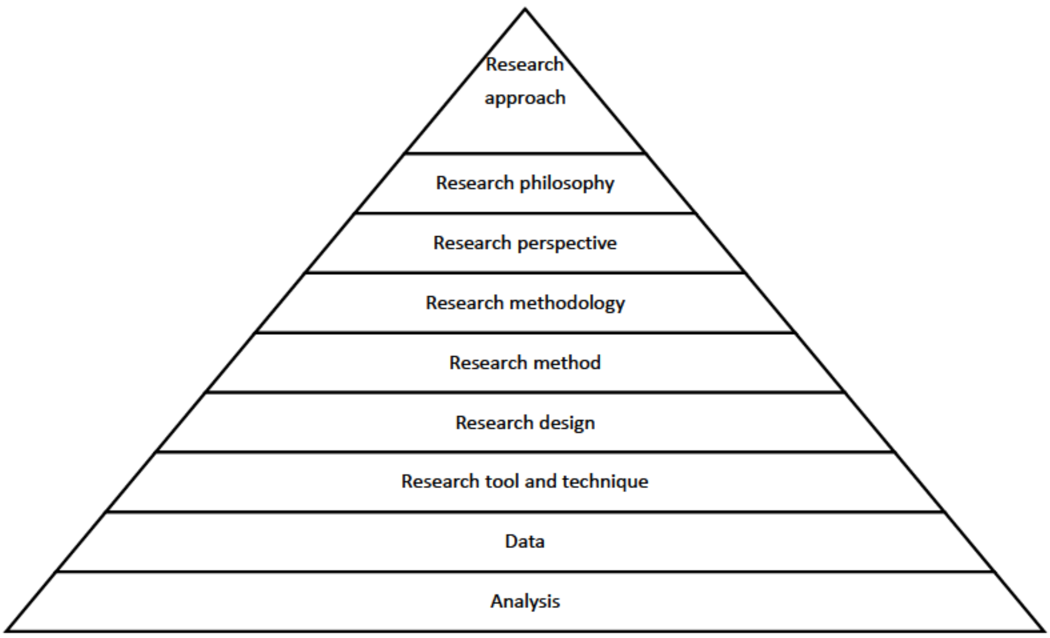

Figure 5-1. The research hierarchy. Source: Maylor & Blackman (2005).

5.2 METHODOLOGICAL PARADIGM

There are two common research paradigms, positivist and interpretive paradigms (Veal 2005). The history of business management research once relied on positivist research methods (Veal 2005). The positivist view of the world believes that researchers are independent of the research and there are objective truths based on the laws of cause (Sekaran & Bougie 2016; Veal 2005). This philosophy supports the ‘scientific method’ of research which uses the hypothetico-deductive paradigm in which positive research explanations and descriptions are made in an objective manner based on facts and observations, commonly of a quantitative nature (Sekaran & Bougie 2016). This paradigm generally applies an experimental design and quantitative measuring methods to large-scale data sets to test the developed hypotheses and statistical analyses to explain the research findings (Henn, Weinstein & Foard 2006).

In contrast, an interpretive paradigm relies on phenomenology that focuses on the meaning of human behavior, the context in which the behavior is observed, and developing an in-depth understanding of the issues. This approach is supported by qualitative data, holistic-inductive analysis and detailed description derived from close observation of the target of the study. More recent modern studies have shifted to interpretive approaches, especially in the business and management literature (Maylor & Blackmon 2005; Veal 2005). This research is an “exploratory study” adopting this philosophical approach and following the paradigm of an “interpretive” perspective (Maylor & Blackmon 2005). A researcher views the world as socially and mentally constructed and subjective (Maylor & Blackmon 2005; Sekaran & Bougie 2016). Its common methodology is qualitative-based and exploratory in nature (Henn, Weinstein & Foard 2006).

Both approaches are useful in different circumstances that primarily depend upon which research query one attempts to investigate. An interpretive perspective is the most appropriate method for this research, given the background of the research problem, the context of the research questions and the research framework laid out above. Several of the research questions posed above require a qualitative explanation. For example, to answer research sub-questions number three and four, the researcher seeks to understand the interrelationships between the bank governance of each of the countries to assess the value of a single standard rulebook based on qualitative data and explanations.

In summary, the interpretive paradigms support the inductive approaches that can be demonstrated by a sequential research process involving data collection, data analysis and explanation, often using qualitative designs based on the data collected through quasi-experiments, interviews, and case studies, beginning with an initial explanation (proposition development), data collection, and analysis. The justification for using a qualitative approach in this research is further discussed below.

5.3 METHODOLOGY JUSTIFICATION

5.3.1 Methodology: Qualitative approach for policy study

The research in this project is an example of qualitative research. The rationale for the use of the qualitative methodology is that it involves an in-depth analysis of a relatively small number of sources of data, the legislation in place in ten countries and a comparison with the BASEL international standard. Data collected are presented in a qualitative manner, and not in a numerical form suitable for statistical analysis (Creswell 1994; Veal 2005). The use of the quantitative methodology is for research that involves the gathering of numerical data on a large number of subjects to test hypotheses and draw conclusions statistically (Veal 2005).

This research employs a framework for analysis based on a qualitative methodology suitable for policy research (Ritchie & Spencer 2002). The main contribution of policy study is not in the process of building cumulative knowledge but rather to put to use available knowledge (Radin 1997). The main difference between policy research and basic research is that the former is dedicated to changing the world and the latter seek to understand the world as it is (Etzioni 2008). The notion of policy research is that when one merely understands the world better, then one will turn to know how to better it (Etzioni 2008).

The framework analysis was first used in an independent qualitative research unit in the Social and Community Planning Research Institute based in London, England by two qualitative researchers, Ritchie and Spencer, in 1994 (Srivastava & Thomson 2009). It is used for research that has specific research questions, a limited timeframe, pre-designed sample and prior issues that motivate the research (Srivastava & Thomson 2009). These criteria explain the specifications of the research. For example, the main research question is very specific to the issue: “Is it possible for ASEAN to introduce a single standard of corporate governance for all banks in all countries? What recommendations can be made?” The contribution to the integration of the ASEAN banking system is the main priority of the research.

According to Ritchie and Spencer (2002), there are four categories of policy research: contextual, diagnostic, evaluation and strategy. This research falls into the category of strategy that has the aim of "identifying the new theories, policies, plans, or actions to achieve optimum efficiency and utilization" of the policies as reflected in the main research question mentioned earlier (Ritchie & Spencer 2002). There are five steps in the analysis process:

Table 5-1. Strategy policy research - 5 steps illustration. (Ritchie & Spencer 2002)

	Elements	**Descriptions**
i.	Familiarization	refers to the engagement with the indices development of the 56 close-ended questions to be answered by the research subjects.
ii.	Identify a thematic framework	refers to the stage after data collection, so the research is able to identify themes and determine whether there are different or common directions of bank governance frameworks across the countries that arise from the answer to the bank governance indices.
iii.	Indexing	refers to identifying and separating elements of the practices into different or common themes.
iv.	Charting	after each element is indexed, they are categorized and charted into their specific context such as shareholder rights, BoD, and disclosure and transparency.
v.	Interpretation	refers to the analysis process of the well indexed and charted data and provides recommendations in accordance with the translation.

5.3.2 Case study method

The method used for any research should be based upon the central research objectives and questions (Crabtree & Miller 1999; Denzin & Lincoln 2000). Therefore, a case study method is the best alternative for this research. According to Creswell (1994), a case study refers to single and bounded entities that are studied in detail using several methods of data collections and does not dictate any particular approach to data collection and analysis. The case is defined by the social unit being studied such as a situation, person, company, program, country, etc. (Creswell 1994). For this research, each case represented by bank governance principals in each country were studied. Therefore, there are a total of ten cases. Also, a case study is very important for exploratory studies (Maylor & Blackmon 2005) as is the case of this research that seeks to explore the value of a single bank governance standard in ASEAN.

5.3.3 Corporate governance indices method

The first section of the research that provides answers to research objectives one and two and sub-questions one and two is based on a methodology that develops corporate governance indices. By adopting a corporate governance indices methodology from a previous study "Law and Finance" by Rafael La Porta of the Harvard University and colleagues (LaPorta, Silanes & Shleifer 1998), which was also used in a study of "Corporate Governance in ASEAN Financial Corporations - Illusion or Reality" by Wiparat Chuanrommanee of the Asian Institute of Technology (Chuanrommanee & Swierczek 2007), the research aim is to collate data and information of bank governance principles in each ASEAN country and to conduct a horizontal analysis to evaluate common and different (gap) practices by comparing the indices of the 10 countries based on each of the bank governance attributes identified in the framework section. Also, vertical analysis is conducted to compare the level of bank governance among countries in compliance with BCBS's standard.

Controverially, there are criticisms of the use of Rafael La Porta, Lopes-de-silanes and Shleifer's (1999) methodologies as they sought to build a methodology based on indices which measure country-level governance in measuring shareholder rights (Braendle 2006; Spamann 2009). It has been criticized for its home bias – U.S. centric - treating the U.S. and its laws as a norm and desirable and not being able to see how similar outcomes may be achieved in different legal and regulatory systems using different legal rules and processes.

To defend the methodological choice, this project is not wholly based on La Porta's methodology that used indices derived from U.S.'s Sarbanes Oxley Act and relevant U.S. laws. Rather, this project adopts the use of an indices approach and an original contribution to research is to develop its own indices to measure country-level governance mechanisms and to identify common and different practices that are based on consensus and voluntarily-accepted rules (BSBS's guideline) by members of the G20 countries (excepts South Korea) and from other jurisdictions.

The indices methodology was used to measure the relationship between takeover tendency, independent directors, or the existence of an audit committee with the firm's value or performance. Therefore, it creates controversy about whether any specific elements that would effect the ultimate outcome of the measurement should or should not be included in the indices. For example, Bebchuk, Lucian, Cohen and Ferrell (2004) criticize the "D" index of Gompers, Ishii and Metrick (2003) that measures takeover defense comprised of 24 equally weighted elements. They argued only 6 elements predict firm value and performance and the other 18 elements are noise. In respond to this, Karpoff, Schonlau and Wehrly (2017) built a different subset of "G" index elements called the "D" index which also measure takeover likelihood.

The aforementioned justifications reflect the inevitable and repeated criticisms of the use of an indices methodology that employs quantitative analysis. However, the indices used in this research are not associated with any relationship with factors such as takeover likelihood/independence directors/existence of audit committee etc. Rather, the research is exploratory; employing the indices methodology that will serve as a comparison mechanism that allows the identification of commonalities and differences within the principles of ASEAN banks governance. Also, the use of a Guttman-scale measurement tool will allow a comparison of a 'total-up' of a country's level of governance and reflect the country's compliance with the BSBS's governance guideline.

5.4 RESEARCH METHOD

5.4.1 Research Subjects

The research assesses bank corporate governance principles in nine of the ASEAN countries (as previously mentioned, Laos is not included in the study due to the unavailability of data and the language barrier). These principles are instrumentalized by the banking supervisory authority in the form of laws, regulations, and guidelines. As discussed in chapter three, the central bank in eight of the nine countries plays the role of banking supervisory authority, except in Indonesia where its banking sector is regulated by an independent agency. Nevertheless, all countries have their own instruments that govern the corporate governance practices for banks, as presented in Table 5.2. These laws and guidelines that are specific for banks are the subject of this research.

There are also corporate governance rules and guidelines in other sectors, especially the one set forth by the stock exchange authorities. These principles aim to strengthen the accountability and transparency of private and public companies that are listed on the stock exchange, including listed banking institutes. However, they serve the purpose of general companies. As discussed in chapter three, banking institutes are unique in their capital structure and risks factors and therefore require a different set of principles. Thus, corporate governance rules and guidelines that are not set by a banking supervisory authority are outside the research scope.

Table 5-2. Corporate governance rules for banks in the ASEAN. (Author's construct)

Countries	**Corporate governance laws/guidelines applying to ASEAN banks**
Brunei	Guideline number BU/G-1/2017/5 "Guidelines on corporate governance for banks" 2017
Cambodia	"Prakas on governance in bank and financial institution" 2008
Indonesia	"Regulation of … implementation of good corporate governance for commercial banks" 2006
Laos	*"Law on Commercial Banks (revised) number 56/NA"2018*
Malaysia	"Corporate Governance" 2019
Myanmar	"Financial Institution Law 2016" (Chapter 10)
Philippines	"Enhanced Corporate Governance Guidelines for BSP-Supervised Financial" 2017
Singapore	"Banking Corporate Governance Regulation" 2005
Thailand	Corporate Governance of Financial Institutions" 2017
Vietnam	"Law on Credit Institutions" 2010 (Chapter 3)

5.4.2 Data Collection Methods

Having identified the research subjects, the following is an explanation of what data to collect, where and how to collect it (Sekaran & Bougie 2016). Data collected for the study are information on bank corporate governance from legal documents pertaining to the bank corporate governance rules and guidelines mentioned above. They are classified as secondary data and qualitative in nature (Denzin & Lincoln 2000). The timing of data collection is the second quarter period of 2020. Data collected are the latest available version on the data sources. In terms of data sources, data are accessed electronically via the policy public databases through the official websites of the banking supervisory authority in each country. Policies pertaining to bank governance are then extracted from the databases and classified accordingly. Therefore, the data obtained are in the form of bulk data and the study starts with a document study of these policies. Methodologically, data collection follows the inductive circular model, starting with data collection, analysis, and finishing with explanation/theory generation (Veal 2005).

In the case of the financial data needed for the analysis, data used are as at the end of financial year 2019 (31 December 2019). If this is not available, data will be based on the latest available (for example 31 December 2018). In order to maintain consistency in accounting and numerical data, the data priority is based on financial statements reported by the external auditor, financial statements claimed by banks, and statements presented by the banking supervisory authority; respectively, due to its availability.

5.4.3 Indices Development

5.4.3.1 Objectives of the indices

Corporate Governance indices (or referred to as corporate governance checklist) was the evaluation method that was used to study the gaps of bank governance practices across countries. It was a widely used approach that was first developed by La Porta (1998) and adopted by various scholars. It was also seen in the ASEAN Corporate Governance Scorecard which measures governance practices in participated corporation, OECD, World Bank, and other standard setter reports. The development of the indices is to serve the purpose of creating an assessment tool that responds to research objectives 1 and 2 which is to assess the gaps and similarities in the bank governance principles currently in place in ASEAN countries and to evaluate the compliance of the banking governance standards in each country with the BCBS's bank governance standard.

5.4.3.2 Scopes and limits

The indices are divided into four sections according to the four bank governance attributes selected for the study. The four sections of the indices are shareholder's rights and regulatory protections, board of directors including overall responsibilities of the board, qualifications and composition of the board, board structure and practices and compensation practices, and disclosure and transparency. Each section contains a minimum of four and a maximum of twelve criteria that total to 56 critical variables. These criteria are derived from the BCBS's bank governance principles (principle 1, 2, 3, 11, and 12) and OECD/G20's corporate governance principles (principle 2). The BCBS's principles are the updated July 2015 version. The OECD/G20 principles are the updated September 2015 version that were endorsed by the G20 Finance Ministers and Central Bank Governors Meeting in Ankara (OECD 2015).

5.4.3.3 Indices development method

There has been a rapid increase in the development and the use of composite indicators or indices of governance in the last two decades (Gisselquist 2014). The methodology was also fueled by the work of LaPorta, Silanes and Shleifer (1998) which received significant academic attention at that time (Martynova & Renneboog 2013). For instance, Gisselquist (2014) provided a ten-question approach to develop and evaluate corporate governance indices. His framework emphasizes concept formation, content validity, reliability, replicability, robustness, and the relevance of particular measures to the underlying research questions.

Martynova and Renneboog (2013) proposed a methodology of detailed governance indices that focus on the features of capital market laws across countries. Nerantzidis (2016) asserted the benefits of the use of multi-methodology composed of the Delphi method, the classical test theory (CTT) and the analytic hierarchy process (AHP). The approaches proposed by Gisselquist (2014) and Nerantzidis (2016) were designed for use at the firm level within a jurisdiction. On the global society organization level, governance indices that are also vital areas are the World Bank's worldwide governance indicator and Transparency International's corruption perceptions index.

The study adopted the eight-step methodology developed by Grimminger and Benedetta (2013) for the World Bank, International Finance Cooperation in a study of corporate governance indices at a cross-country level. Grimminger and Benedetta (2013) approach, first starts with an initial consultation process including theory justification as explained in chapter four. Second is to define the objectives of the indices as previously explained. Third is the selection of the indices approach. Grimminger and Benedetta (2013) suggested basing the indices on adherence to listing rules for the purpose of improving corporate governance practices and to attract investments. However, that is not the objective of this research. The indices of this study are based on BCBS's and OECD/G20 principles for the reasons explained in chapter four. Next is to ensure the measurability of the evaluation criteria. The next step is to build a transparent and credible evaluation process and measurement. For instance, the use of a Guttman scale measurement method is straightforward and mathematically basic for readers. After that is to ensure maximum possible disclosure through comprehensive analysis and reporting. The next two processes that include effective monitoring and improving the indices are for indices that require repetitive assessment.

5.4.3.4 Reliability of the indices

The evaluation criteria of the indices are developed in the form of closed-ended questions or methodologically called "binary questions answered" with two possible responds: affirmative or negative (Abdi 2010). Therefore, there is no variance between answers. There are "error" alternatives which are further explained in the analysis method section in this chapter.

The indices are developed from standard principles as mentioned in previous sections, therefore there is no contextual bias that may arise in any evaluation criteria.

5.5 DATA ANALYSIS METHOD

This research uses a mixed method. The early part of the analysis that responds to research sub-questions one and two is based on the content analysis method. Content analysis is an interpretation of the content of documents through a systematic classification process and identifying the patterns (Bryman & Bell 2015; Gillham 2000). For instance, the contents of documents refer to bank governance principles of the ten ASEAN countries. The information to be analyzed is classified according to the governance attributes explained in earlier sections which, at the end of the process, allow researchers to identify certain patterns of bank governance principles across countries.

Following the content analysis, the scalogram analysis or Gutmann-scale measurement method is applied to evaluate a country's compliance with the standards and measure the level of commonality and variance of practices. The Guttman scaling was developed by Louis Guttman in 1944 and was first used as part of the classic historical literature "American Soldier" which marked an important event in the world of social research (Abdi 2010). The goal of using Guttman scaling is to achieve a single dimension numerical value that can be used to position the question and subject and arrive at a finding through the sum of numerical value (Abdi 2010; McIver & Carmines 2011). For instance, a horizontal pattern of response indicates the level of commonality and variance of practices across countries, and the vertical pattern reflects the level of a country's compliance with the standards.

There are two response options to the evaluation criteria: affirmative and negative. However, there are foreseeable cases of an "imperfect scale" that forbids absolute certain responses (Abdi 2010) such as the availability of information, noise in raw information, etc. In such cases, the response is mark "error" and it is considered that the deviation are random errors (McIver & Carmines 2011). The ideal scale is recovered from noisy data through the coefficient of reproducibility (CR) that assesses the degree of scalability of the empirical data. According to Guttman (1950) , the coefficient of reproducibility is the amount by which a scale deviates from the ideal scale pattern (McIver & Carmines 2011).

There are two methods to calculate the CR, the Guttman formula and Goodenough-Edwards formula (McIver & Carmines 2011). The formation of the two formulas is the same, except for the error assignment (count) technique used. The Guttman error assignment method called “minimization of error” demands that the number of errors is the least number of affirmative responses that must be changed to negative or negative responses that must be changed to affirmative. This error counting method may undercount locational errors that is important for the study and therefore it is not used in the study. This study adopted the Goodenough-Edwards formula that counts errors in every observed response. The formula to define coefficient reproducibility (CR) according to Goodenough-Edwards method is as follows (Abdi 2010; McIver & Carmines 2011):

$$CR = 1 - \frac{\text{Number of errors}}{\text{Number of total responses}}$$

where, for the research:

$$CR = 1 - \frac{\text{Number of errors}}{\text{Number of evaluation criteria} \times \text{Number of subjects}}$$

According to the Goodenough-Edwards standard, as well as Guttman’s establishment, a set of data is considered scalable if the error in reproduction is equal to or less than 10% of the total response (Abdi 2010; McIver & Carmines 2011). This means that the dataset is valid if CR is equal to or greater than 90%. In cases where the CR is lower than 90%, the evaluation criteria that contain errors will be relaxed from the unidimensional treatment and it will be assumed that the concerning criteria will involve several dimensions. The criteria will be adjusted and reassessed until the CR is equal to or greater than 90%.

The analysis of the indices is based on univariate data analysis. This involved the measurement of dispersion, percentile analysis, scattergrams, the normal distribution bell-shape curve, and a box-chart. These techniques allow the data to be described from different perspectives.

The latter part of the convergence theories analysis on sub-questions three and four is characterized by the grounded theory analysis method. The grounded theory is appropriate for an inductive approach that seeks theory construction through the analysis of data (Gillham 2000). For instance, theories may arise after the analysis and lead to recommendations on the convergence of bank governance. The analysis for both sub-questions is based on the propositions made in the previous chapter.

Sub-question three requires an analysis on a case-by-case basis. This approach is especially relevant to the research context. The book, Masters of the universe-slaves of the market by Bell and Hindmoor (2015) asserted that even in relation to the present apparently globalized banking system that supposedly operates at a high degree of homogeneity, the behaviors of the banking system within a jurisdiction are shaped by nationally specific market contexts. Hence, an individual case study is essential in studies of cross-border banking systems. Later, sub-question four requires the analysis of the ASEAN system as a single subject, which is feasible by deriving perceptions and understandings from the case-by-case analysis undertaken to address sub-question three.

5.6 ETHICAL CONSIDERATIONS

The development and evaluation of the indices is derived from secondary and publicly available documents. Therefore, it does not carry individual ethical responsibilities and does not breach the ethical boundary of the subject matter.

5.7 PRESENTATION

The presentation of the report is not bound to a certain methodology. There is no one best approach to present case study research (Maylor & Blackmon 2005). However, the presentation will follow the reporting style of the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne 2019). In the report, Commissioner Hayne (2019) conducted case studies to investigate the conduct of financial services entities that might have amounted to misconduct and whether the practices and culture fell below community standards and expectations. The report on governance misconduct divided the issues into remunerations, culture, and roles and accountabilities of the board. The report presented issues case by case and provided straightforward recommendations in relation to the issues of concern. It is direct and easy for readers to understand.

5.8 CONCLUSION

Interpretive epistemology leads the research in terms of its philosophy. Its viewpoint is that research is qualitative-based and exploratory in nature. In respect to methodology, the research employs a framework and analysis based on a qualitative methodology for policy research that falls into the category of a "strategy" approach, aiming to "identify the new theories, policies, plans, or actions to achieve optimum efficiency and utilization" (Ritchie & Spencer 2002). The selected policy research approach comprises five sequential processes: familiarization, identify a thematic framework, indexing, charting, and interpretation. The research is characterized by a case study method consisting of ten cases and involves the development of corporate governance indices, a method used in previous governance studies. In terms of research subjects, there are nine subjects or cases. These nine subjects are the sources of data which were extracted digitally from their official websites. They are from publicly accessible databases. Data were extracted in the form of secondary data, particularly laws and guidelines pertaining to bank governance of the ten countries. The first half of the analyses followed the protocol set out above while the second half was guided by the ten research propositions discussed in the previous chapter. The presentation of the analysis chapters was inspired by the structure of Commissioner Kenneth Hayne's report. Figure 14 summarizes the research hierarchy. The next chapter describes the analysis and findings of the thesis, presented in a sequential manner as elaborated in the research framework chapter.

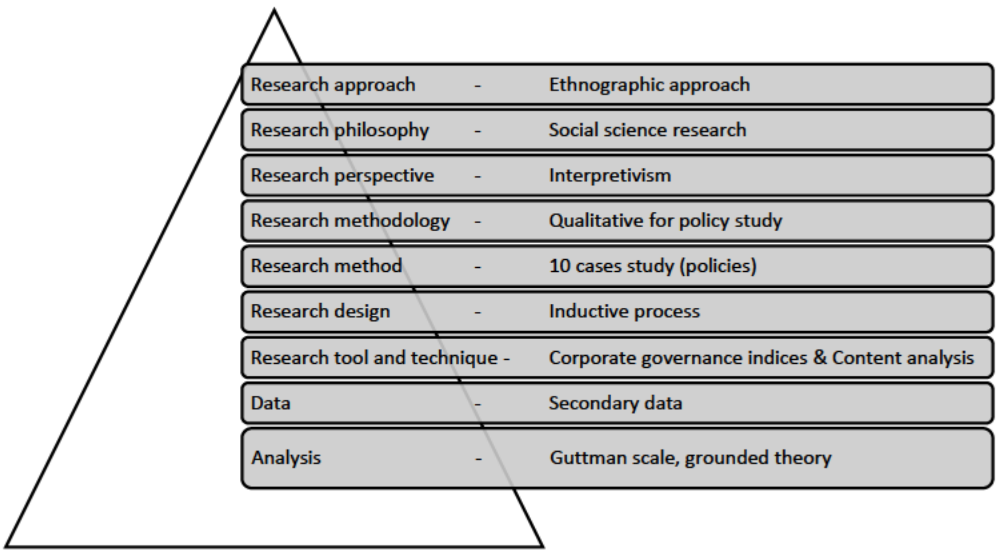

Figure 14. The research hierarchy in detail. Source: Maylor & Blackman (2005).

CHAPTER 6 FINDINGS – Measuring the level of bank governance across ASEAN countries and the tendency towards convergence

6.1 INTRODUCTION

This chapter provides the main findings of the research. It is organized sequentially relative to the research design. The first section of the chapter presents the findings that respond to the first and second research objectives. These are to:

- Identify common and different bank governance practices.
- Measure the level of bank governance compliance with the BCBS's principles.

The propositions are that:

- **P 1:** There is a multiplicity of bank governance rules across ASEAN countries.
- **P 2:** The level of bank governance rules of ASEAN countries which comply with BCBS's principles vary from country to country.

Using the governance indices methodology, ASEAN countries' bank governance rules are assessed through thorough reviews of each country's bank governance policies and regulations. Governance scores are calculated to measure the compliance rate and are presented in a table format to allow for both a vertical analysis (comparing each country's score) and a horizontal or pattern analysis. The indices also include the calculation of a coefficient of reproducibility that is methodologically required to assess the validity of scalogram analysis or the Gutmann-scale measurement method used. All the coefficients of reproducibility[1] of the indices (divided into six governance attributes) are over 90% which indicates the validity of the measurement scales of the indices.

The second section of this chapter provides the findings related to the tendency towards bank governance convergence. It contains information and data for the analysis of the ASEAN bank governance convergence tendency that answers the third and fourth research objectives. These are to:

- Provide information on the prospect of an ASEAN single standard on bank governance based on convergence theories.
- Provide recommendations based on the prospect of an ASEAN's bank governance standard.

[1] Coefficient reproducibility of indices are 98%, 97%, 93%, 97%, 92% and 96%, respectively.

The propositions for ASEAN bank governance based on convergence theories are that:

- **P 3.1:** The heterogenous ASEAN bank governance rules suggest that legal systems across ASEAN countries vary.
- **P 3.2:** The heterogenous ASEAN bank governance rules suggest that is a relatively low number of banks within ASEAN are ultimately owned (50.01%) by institutional investors.
- **P 3.3:** The heterogenous ASEAN bank governance rules suggest that there has been a relatively large increase in the number of controlling shareholders within ASEAN over the last 10-year period.
- **P 3.4:** The heterogenous ASEAN bank governance rules suggest that there are different levels of social democracy (in the ASEAN banking context) across countries.
- **P 3.5:** The heterogenous ASEAN bank governance rules suggest that there are different degrees of political stability effectiveness (measured through the World Bank's Political Stability Indicators) across countries.
- **P 3.6:** The heterogenous ASEAN bank governance rules suggest that a relatively large number of banking institutes within ASEAN are ultimately owned (50.01%) by an individual or a family.
- **P 3.7:** The heterogenous ASEAN bank governance rules suggest that a relatively low number of banks within ASEAN are ultimately owned (50.01%) by foreigners (combined) through direct or total participation.
- **P 3.8:** The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in competitive advantage (measured through aggregated sectoral data on trades in products and services) across countries.
- **P 3.9:** The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in banking institutes' identities (measured through sectoral aggregated credit portfolio outstanding) across countries.

The proposition for the prospect of the ASEAN's bank governance standard is that:

- **P 4:** The regional ASEAN bank governance framework should shift toward its own system design.

There are nine factors categorized into four premises of corporate governance convergence theories. The types of information and data are varied and extracted from a number of different sources, mainly the central bank's reports and databases and the Orbis database.

6.2 IDENTIFYING COMMONALITIES AND DIFFERENCES ACROSS COUNTRIES AND MEASURING THE LEVEL OF COUNTRIES' COMPLIANCE WITH THE BCBS STANDARD

This section of the chapter is the starting point of the indices assessment. This section corresponds to the first and second research objectives, hence the findings answer the first two research sub-questions. The first question answered is *what rules have been adopted?* and *what are the commonalities and dissimilarities of bank governance rules in ASEAN in terms of shareholder's rights and key ownership functions, board of directors (overall responsibilities, expertise, structure, and remuneration) and disclosure and transparency?* The second question that this section aims to address is *to what extent do the governance rules of each ASEAN country comply with BCBS's principles?* and *which countries demonstrated the most and the least alignment?* The findings in this section provide answers to both sub-questions.

The bullet points and Table 6.1 describe the types of documents that are the sources of data for the assessment of the indices of each ASEAN country. There are six countries that enact a single dedicated policy document for the sole purpose of strengthening governance in the banking system namely: Brunei, Cambodia, Indonesia, Malaysia, Singapore, and Thailand. Myanmar and Vietnam stipulate relevant bank governance rules in their banking laws and in a combined Manual of Regulations as is also the case for the Philippines. Two countries (Brunei and Singapore) explicitly state their enforcement tactic is a "comply or explain" basis, while the other countries do not specify this but rather include provisions for laws to enforce penalties in the event of noncomplying practices. Those documents are:

- Brunei's Guideline on Corporate Governance for Banks number BU/G-1/2017/5 (MABD 2017)
- Cambodia's Prakas (regulation) on Governance in Bank and Financial Institutions number B-7-08-211 (NBC 2008)
- Indonesia's Regulation Concerning Good Corporate Governance Implementation by Commercial Banks number 8/4/PBI/2006 (BI 2006)
- Malaysia's Policy Document on Corporate Governance number BNM/RH/PD/035-5 (BNM 2019b)
- Myanmar's Financial Institution Law number 20/2016 (CBM 2016a)
- Philippines's Manual of Regulations for Banks (part one chapter D) (BSP 2018)

- Singapore’s Guideline on Corporate Governance for Financial Holding Companies (MAS 2013a)
- Thailand’s Notification on Corporate Governance of Financial Institutions number FPG13/2552 (BOT 2009)
- Vietnam’s Decree on the Organization and Operation of Commercial Banks number 59/2009/ND-CP (SBV 2009)

Table 6-1. ASEAN countries’ bank governance regulations. Source: Bank governance policy documents by banking authority in the ASEAN countries.

Countries	**Brunei**	**Cambodia**	**Indonesia**	**Malaysia**	**Myanmar**	**Philippines**	**Singapore**	**Thailand**	**Vietnam**
Compliance level	Comply or explain	Not specified	Not specified	Not specified	Not specified	Not specified	Comply or explain	Not specified	Not specified
Document type	Guideline	"Prakas" - Regulation	Regulation	Policy document	Financial institutions law (CH10,11)	Manual of Bank Regulations (Part 1, CH D)	Guideline	Notification	Decree
Date of adoption/ enactment	2nd March 2017	25th Nov 2008	5th Oct 2006	13th Dec 2019	25th Jan 2016	31st Dec 2018	3rd Apr 2013	9th July 2009	16th July 2009
Document length (pages)	58	8	38	31	6	28	41	14	67

6.2.1 SHAREHOLDER RIGHTS AND PROTECTIONS

Table 6.2 evaluates the shareholder's rights and key ownership functions. It comprises ten evaluation criteria which are categorized separately on aspects of key ownership functions and voting rights. In terms of horizontal patterns, almost all countries fall into one single pattern due to the lack of legal requirements on the protection of shareholder's rights in their governance framework. For instance, there are six countries that stipulate one rule or less (of the 10 rules) in compliance with BCBS's principles. However, three countries, namely Brunei, Singapore and Vietnam have some common rules in terms of the requirement for shareholder participation and voting rights in general meetings and equal treatment for proxy votes. Predominantly, all countries' rules are weak in terms of shareholder's rights and key ownership functions.

On the aspect of the level of country compliance, the results indicate that only three countries, namely Brunei, Singapore, and Vietnam, include shareholder's rights and key ownership functions in their bank governance framework. The focus is on voting rights in which minor and major shareholders are treated equitably. The rest of the countries exclude this governance attribute from their framework, while Indonesia includes only one, this being that shareholders have the right to obtain corporate information in a timely manner, and Myanmar stipulates that only shareholders have the right to elect members of the board. Overall, Singapore is the most compliant country followed by Brunei and Vietnam whereas the least compliant countries are Cambodia, Malaysia, Philippines, and Thailand.

Table 6-2. Shareholder's rights and key ownership functions in the ASEAN banking framework[2].

		Countries	Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
A. Shareholder's rights and key ownership functions											
A fundamental of the principle is to ensure that the corporate governance framework should protect and enable the application of shareholder's rights and to establish fair treatments for all shareholders including foreign and minority shareholders (OECD 2015). (*Noted, shareholder refers to a holder of the company's shares regardless of amount and local or foreigner)*.											
1	***Key ownership functions***	Shareholders have the right to secure methods of ownership registration.	0	0	0	0	0	0	0	0	1
2		Shareholders have the right to convey or transfer shares.	0	0	0	0	0	0	0	0	E
3		Shareholders have the right to obtain corporate information on a timely and regular basis.	1	0	1	0	0	0	1	0	0
4		Shareholders are allowed to consult with each other on issues concerning their basic shareholder rights (subject to exceptions to prevent abuse).	0	0	0	0	0	0	0	0	0
5	***Voting rights***	Shareholders have the right to participate and vote in general shareholder meetings. *(If not, automatically go to number 7. Number 6 scores nil)*	1	0	0	0	0	0	1	0	1

[2] Noted, alternatives of the indices: 1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

6	Shareholders have the right to be informed of information in a timely manner (including voting procedures) concerning general shareholder meetings.	1	0	0	0	0	0	1	0	0
7	Shareholders have the right to vote to elect and remove members of the board.	0	0	0	0	1	0	0	0	1
8	Shareholders have to right to vote in material changes such as article of incorporation, authorization of additional shares, and extraordinary transactions.	0	0	0	0	0	0	1	0	1
9	Shareholders have the right to vote in person or in absentia (proxy) and equal effect should be given to votes in either cast.	1	0	0	0	0	0	1	0	1
10	Shareholders have the right to cast votes electronically regardless of in-shore or off-shore location.	1	0	0	0	0	0	1	0	E
Country score/standard compliance		**5**	**0**	**1**	**0**	**1**	**0**	**6**	**0**	**5**
Coefficient reproducibility						**CR = 98%**				

6.2.2 BOARD OF DIRECTORS

6.2.2.1 OVERALL RESPONSIBILITIES

This section of the indices contains 12 evaluation criteria measuring four governance aspects of a board’s overall responsibilities (Table 6.3). They include the board’s responsibilities, corporate culture and value, risk appetite control and oversight of management. In terms of cross-country indications, there is a strong pattern of common practices on the aspect of the board’s responsibility for risk appetite control and the oversight of management, whereas other aspects indicate various governance rules across countries. For example, in terms of risk appetite control, there are only two countries in which regulations do not comply, which means that seven countries share common rules. Likewise, in terms of the oversight of management, all countries have the same rule requiring that the board should approve the selection of the CEO, senior management, and the heads of control function. On the other hand, there is a huge gap regarding the aspect of corporate culture and values in which four countries have different rules from the other five. Overall, the rules are diverse across the countries, except for the rules on risk appetite control and the oversight of management.

Concerning the level of compliance, Brunei is the only country in which its governance framework completely complies with the BCBS’s principles, followed by the Philippines, in which only two of the 12 criteria are not stipulated in its governance framework. Malaysia and Singapore contain provisions that are more than half compliant. On the other hand, Myanmar and Vietnam only comply with two and three criteria, respectively, which makes Myanmar the least compliant country of its ASEAN counterparts.

Table 6-3. Overall responsibilities of the board in the ASEAN banking framework[3].

		Countries	Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
B. Overall responsibilities of the board											
The board has an overall responsibility for the bank such as the approval and oversight of the implementation of the management of bank's objectives, strategies, governance framework and corporate culture (BCBS 2015).											
1	***Responsibilities***	The board clearly lays out the key responsibilities and authorities of the board itself, senior management and control functions.	1	1	1	1	1	1	1	1	0
2		The board should approve the bank's business objectives and strategy and monitor their implementation.	1	1	0	1	0	1	1	1	1
3		The board should maintain and update organization rules, setting out its organization, rights, responsibilities and key activities.	1	1	1	1	0	1	1	0	0

[3] Noted, alternatives of the indices: 1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

4	***Corporate culture and values***	The board should promote a sound corporate culture by reinforcing "tone at the top", including but not limited to setting corporate values, communicating them, and promoting risk awareness.	1	0	0	1	0	1	1	0	0
5		The board should ensure the bank’s code of conduct/ethics defines acceptable and unacceptable behaviors.	1	0	1	0	0	1	0	0	1
6		The board should oversee its whistleblowing policy mechanism and ensure that legitimate issues are addressed and staff who raise concerns are protected.	1	0	0	1	0	1	1	0	0
7	***Risk appetite control***	The board (along with the chief risk officer) should establish and oversee its risk appetite statement, risk policy, and risk positions.	1	1	1	1	0	1	1	1	0

8	The board should oversee and ensure a proper structure of risk governance framework that consists of three lines of defense (1st business line, 2nd risk management and compliance function, and 3rd internal audit). *(If not, automatically go to number 10. Number 9 scores nil)*	1	0	0	0	0	1	0	0	0
9	The board should ensure that the second (risk management and compliance) and third (internal audit) lines of defense carry out responsibilities independently from the business line, objectively, and effectively.	1	0	0	0	0	0	0	0	0
10	The board should ensure that the bank risk governance framework includes disciplinary actions for the breach of risk limits.	1	0	0	0	0	0	1	0	0

11	***Oversight of management***	The board should approve the selection of the CEO, senior management, and heads of the control function.	1	1	1	1	1	1	1	1	1
12		The board should oversee senior management and hold them accountable for their actions and enumerate the possible consequences.	1	1	E	1	0	1	E	1	E
	Country score/standard compliance		**12**	**6**	**5**	**8**	**2**	**10**	**8**	**5**	**3**
	Coefficient reproducibility						**CR = 97%**				

6.2.2.2 QUALIFICATIONS AND COMPOSITION OF THE BOARD

In terms of the qualifications and composition of the board, three marks are assigned to the composition of the board and six are assigned to qualifications (Table 6.4). The horizontal patterns indicate that countries' rules are heterogenous. For instance, there are only two variables that show similarity, those are the cases of the requirement for a sufficient number of independent board members and the notification to the authority of the disqualification of a board director. Other variables express varying rules such as the requirement for induction or a training program on the directorship of the board members which are required in five countries but are not specified in the other four. Predominantly, the rules are diverse across the countries.

In regard to the degree of the countries' compliance, Brunei once again leads with a total compliance rate to the BCBS's standard, followed closely by Cambodia and the Philippines. In the case of Cambodia, the guidelines fail to mention that authorities need to be notified if any board member ceases to be qualified, while Philippines's guidelines lack attention to the board member's attitude in promoting effective communication and critical debates among the board. The country that comes last in the ranking is Myanmar in which its financial institution laws stipulate that the authority only needs to be notified if a board member ceases to be qualified and does not include all the other factors of the indices. All other countries show above average compliance with the BCBS's standard.

Table 6-4. Qualifications and composition of the board in the ASEAN banking framework[4].

		Countries	Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
C. Qualifications and composition of the board											
The board members should be and remain qualified individually and collectively for their positions and should understand their role in the oversight of the bank and be able to exercise sound, objective judgement on the affairs of the bank (BCBS 2015).											
1	***Board composition***	The board comprises sufficient number (no less than 1) of independent directors.	1	1	1	1	0	1	1	1	1
2		Collectively, board members should have a range of knowledge and experience (but not limited to) in capital market, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance, and management skills.	1	1	0	1	0	1	1	E	E
3		Individual board members' attitudes should facilitate communication, collaboration, and critical debate in decision-making process.	1	1	E	0	0	0	E	0	0

[4] Noted, alternatives of the indices:1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

4	***Selection and qualifications***	The board candidates should have a record of integrity and repute.	1	1	1	0	0	1	E	1	1
5		The board candidate should have sufficient time to fully carry out board responsibilities.	1	1	1	1	0	1	1	0	1
6		The board should ensure that members participate in induction or any sort of training programs related to directorship.	1	1	0	0	0	1	1	0	1
7		The bank should have nomination committee or equivalent body compose of independent directors to identify and nominates board candidates.	1	1	1	1	0	1	1	1	0
8		The board/nomination committee should have a clear and rigorous process for identifying, assessing and selecting board candidates.	1	1	1	1	0	1	1	1	1
9		In case a board member ceases to be qualified or is failing to fulfill her responsibilities, the board should take appropriate actions including notify banking supervisor.	1	0	E	1	1	1	1	1	1
	Country score/standard compliance		**9**	**8**	**5**	**6**	**1**	**8**	**7**	**5**	**6**
	Coefficient reproducibility						**CR = 93%**				

6.2.2.3 BOARD STRUCTURE AND PRACTICES

Board structure and practices (Table 6.5) include three aspects of governance: the chair of the board, board committee and conflict of interest. In regard to common practices, all countries have the same practices relating to the establishment of specialized committees in which the chairs of the committees are independent board members, all banks should establish risk committee, and all banks should establish an audit committee (except in Vietnam for the case of an audit committee). Nevertheless, a majority of the rules are diverse across the countries. Some cases have a huge variance. For example, five countries require that the chair and CEO should be a different person while this is not specified in the other four countries. Also, four countries require that independent members should be appointed to the entire audit committee, while this is not required in the other five countries. On this overall basis, there are strong patterns of diverse rules across the ASEAN.

In term of the countries' compliance, countries that are most compliant are Brunei and Malaysia, both scoring 12 out of the total of 13 marks. Malaysia is compliant with all variables except one variable which is indecisive. It is the case that the guideline stipulates about the conflict of interest, however it is not clearly stated about the requirement to produce a dedicated conflict of interest policy and the implementing strategy. The countries which achieved the second highest score of 11 are Philippines and Singapore. The least compliant countries are Cambodia, Myanmar, and Thailand, each of which scored five marks of the total 13 marks. These three countries are not compliant at all in relation to the aspect of the chair of the board (no country scored one point).

Table 6-5. Board structure and practices in the ASEAN banking framework[5].

Countries			Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
D. Board structure and practices											
The board should set an appropriate governance structure and practices to exercise their own roles, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness (BCBS 2015).											
1	***The chair of the board***	The chair of the board should be an independent or non-executive board member.	0	0	0	1	0	1	0	0	1
2		The chair of the board should be a different person from the CEO. *(If affirmative, automatically go to number 4. Number 3 scores 1)*	1	0	0	1	0	1	1	0	1
3		In jurisdictions where the chair is permitted to assume executive duties, the bank should designate a lead board member or senior independent board member, and have a majority of non-executive directors on the board.	1	0	0	1	0	1	1	0	1

[5] Noted, alternatives of the indices:1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

4	***Board committees***	A board may establish certain specialized board committees. The chair of committees at board level should be an independent board member.	1	1	1	1	1	1	1	1	E
5		Each committee should have a charter or other instrument mandated by the full board that sets out its mandate, scope, working procedures.	1	0	1	1	0	1	1	1	E
6		A systematically important bank should establish an audit committee whereas other banks are recommended.	1	1	1	1	1	1	1	1	0
7		The audit committee must be entirely made up of independent or non-executive board members.	1	0	0	1	1	0	1	0	0
8		The chair of the audit committee should be independent and different person from the chair of the board and other committees.	1	0	1	1	1	1	1	0	0
9		A systematically important bank should establish a risk committee whereas other banks are recommended.	1	1	1	1	1	1	1	1	1

10		The risk committee must be made up of a majority of independent board members.	1	0	1	1	0	1	1	0	0
11		The chair of the risk committee should be independent and a different person from the chair of the board and other committees.	1	0	1	1	0	1	1	0	0
12	***Conflict of interest***	The board member candidates should not have any conflict of interest and experience undue influence from management, shareholders, or any personal, professional or other economic relationships.	1	1	1	1	0	1	1	1	1
13		The board should have a formal written conflict of interest policy and the objective compliance process for implementing the policy.	1	1	0	E	0	E	0	0	1
	Country score/standard compliance		**12**	**5**	**8**	**12**	**5**	**11**	**11**	**5**	**6**
	Coefficient reproducibility						**CR = 97%**				

6.2.2.4 REMUNERATION PRACTICES

There are four criteria to assess the rules of the remuneration practices of the board (Table 6.6). In terms of cross-country rules, the patterns show that all aspects of the remuneration rules of the board are stipulated differently from one jurisdiction to another. There is no single common rule on any criteria. The least variance is found on the requirement of the establishment of a remuneration committee which is mandatory in seven countries and is not specified in the other two. Likewise, seven countries require that the committee together with the board should approve compensation for the CEO, CRO, head of compliance, and internal audit, whereas this rule is not mandatory in Brunei and Vietnam. Largely, the rules concerning remuneration practices of the board are considerably diverse across the countries.

In regard to the level of country compliance, according to the findings, the Philippines and Singapore are fully compliant with the BCBS's standard, including the requirement to establish a remuneration committee, a review of the remuneration plan at least annually, the approval of the authority of the CEO, CRO, head of compliance, and internal audit compensations and incentives, and the risk averse feature of the remuneration structure. In the case of Malaysia and Thailand, the rules stipulate a requirement for a remuneration plan but fail to mention that it should be reviewed by the board or committee at least annually. Countries that are the least complied are Cambodia (complying with 1/4 of the criteria) and Vietnam (non-compliant). All the other countries score two and three which indicates mild compliance.

Table 6-6. Remuneration practices of the board in the ASEAN banking framework[6].

Countries			Brunei	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
E. Remuneration practices of the board											
The bank's remuneration structure should support sound corporate governance and risk management (BCBS 2015).											
1	***Compensation practices of the board and committee***	Systematically important bank should establish compensation/remuneration committee.	1	0	1	1	1	1	1	1	0
2		The board or committee should review remuneration plans, processes, and outcomes at least annually.	1	0	0	E	0	1	1	E	0
3		The board together with the committee where one exists, should approve compensations of CEO, CRO, head of compliance, and internal audit.	0	1	1	1	1	1	1	1	0
4		Remuneration structure should not incentivize executives and staff to take excessive risk.	1	0	0	1	0	1	1	1	0
	Country score/standard compliance		**3**	**1**	**2**	**3**	**2**	**4**	**4**	**3**	**0**
	Coefficient reproducibility						**CR = 92%**				

[6] Noted, alternatives of the indices:1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

6.2.3 DISCLOSURE AND TRANSPARENCY

The assessment of disclosure and transparency is based on eight criteria (Table 6.7). Five criteria emphasize the content of information that is required to be disclosed to the public in a timely and accurate manner, while the other three items focus on website disclosure, governance statement in the annual report, and disclosure of material developments. In regard to cross-country rules, the patterns indicate that there is no single governance component that is in common and the rules are largely diverse across each country. For instance, five countries require banks to disclose major shareholders and voting rights while the other four do not. Also, five countries make it necessary for banks to produce annual corporate governance specific and extensive statements in an annual report while this is not the case in the other four countries.

In terms of compliance, the country that is fully compliant is Brunei, as its bank governance guidelines prescribes to all the requirements as specified in the BCBS's standard. For instance, issues such as majority share owners and voting rights should be disclosed to stakeholders and the public, and disclosure and transparency through the internet is also emphasized by the requirement that information should be updated promptly on the bank's website. The country that follows Brunei is Indonesia being one mark behind. The least transparent banking framework is Myanmar where there is an absence of the provisions on disclosure and transparency in its banking law. Vietnam is the second least compliant country which scores only two marks, these being cases on the aspect of the disclosure of bank's objectives and important organizational information and the disclosure of the bank's share owners and voters. All other countries have low compliance rates with the BCBS's standard, with scores ranging from three to five.

Table 6-7. Disclosure and transparency in the ASEAN banking framework[7].

Countries			*Brunei*	*Cambodia*	*Indonesia*	*Malaysia*	*Myanmar*	*Philippines*	*Singapore*	*Thailand*	*Vietnam*
F. Disclosure and Transparency (should be proportionate to the size, complexity, structure, economic significance, and risk profile)											
The governance of a bank should sufficiently disclose and be transparent to its shareholders, depositors, and other relevant stakeholders and market participants (BCBS 2015).											
1	***Disclosure on website and annual or periodic reports***	The bank should accurately disclose in a timely manner material information to the public such as:									
1.1		Bank's objective and strategy, financial situation and performance, and organizational and governance structure.	1	1	1	1	0	1	0	0	1
1.2		Major share ownership and voting rights.	1	1	1	0	0	0	0	0	1
1.3		Recruitment approach for selection of board members, set up of board committees and number of meetings.	1	0	1	1	0	0	1	1	0
1.4		Remuneration policy and its procedure.	1	1	1	1	0	0	1	1	0

[7] Noted, alternatives of the indices:1 = affirmative, 0 = negative (including not specified or written), and E = Error (indecisive).

1.5	Related party transactions, risk exposure and risk management strategies.	1	1	1	0	0	1	0	1	0
2	Information should be updated promptly on the bank's website.	1	0	1	0	0	0	1	0	0
3	The bank should have an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of the annual report.	1	0	1	1	0	1	1	0	0
4	The bank should disclose all material developments that arise between regular reports to the bank supervisor and relevant stakeholders.	1	E	E	1	0	0	1	E	0
	Country score/standard compliance	**8**	**4**	**7**	**5**	**0**	**3**	**5**	**3**	**2**
	Coefficient reproducibility					**CR = 96%**				

6.2.4 DATA ANALYSIS OF THE DIFFERENCES AND SIMILARITIES OF GOVERNANCE RULES AMONG ALL THE STUDIED COUNTRIES

The above indices are made up of univariate data. At this stage, all the indices are consolidated for the purpose of data analysis. Table 6.8 shows the consolidated data of governance scores (horizontal data) and country scores (vertical data) in terms of values and percentages. The table shows the compliance scores for each country and for each item measuring compliance, the total possible score and the percentage of the total score achieved. The latter indicates the level of compliance. Further interpretation of these scores is discussed in Chapter 7.

For the purpose of data analysis, univariate data analysis is presented based on each country's individual index and the aggregated consolidated indices scores. The first analysis is the horizontal patterns of the evaluated governance elements which allowed for the measurement of dispersion and percentile analysis that would suggest differences and similarities of governance rules among all the studied countries.

The data were then plotted to disclose a scattergram, the normal distribution bell-shape curve, and a box-chart with the purpose of describing the data from different perspectives.

After this, the vertical data patterns are analyzed to show the countries' overall mean compliance levels and the percentile indications. This evaluation is based on the same univariate data analysis method. The line chart that follows provides a graphic illustration of the overall findings in terms of the patterns of governance rules in each country and level of country compliance to the BCBS's governance standard.

Table 6-8. Summary of the assessment on the ASEAN banking framework.

Bank governance	*Brunei*	*Cambodia*	*Indonesia*	*Malaysia*	*Myanmar*	*Philippines*	*Singapore*	*Thailand*	*Vietnam*	*Total governance scores*	*Total available scores**	*Governance compliances level*
A. Shareholder's rights and key ownership functions	5	0	1	0	1	0	6	0	5	18	***90***	20%
B. Overall responsibilities of the board	12	6	5	8	2	10	8	5	3	59	***108***	55%
C. Qualifications and composition of the board	9	8	5	6	1	8	7	5	6	55	***81***	68%
D. Board structure and practices	12	5	8	12	5	11	11	5	6	75	***117***	64%
E. Compensation practices of the board	3	1	2	3	2	4	4	3	0	22	***36***	61%
F. Disclosure and Transparency	8	4	7	5	0	3	5	3	2	37	***72***	51%
Total country scores	**49**	**24**	**28**	**34**	**11**	**36**	**41**	**21**	**22**	**266**	***504***	53%
Total available scores					*56*					*Note:*		
Country compliance level	88%	43%	50%	61%	20%	64%	73%	38%	39%	** Total available score = 9 (countries) x number of evaluation criteria*		

The descriptive statistics describing the governance elements (Table 6.9) suggest that governance rules differ widely from one country to another. Each governance rule accounted for scores that show the disparity of rules across countries. For instance, the scores in the dataset for each individual country range between zero to nine with a stretched data distribution (as depicted in the scatterplot in Figure 6.1). The average mean is 4.75 while the standard deviation is 2.31.

Also, the skewness of -0.09 is well below the (+/- 3) level, indicating there are more variables which scored below the average central point. The percentile calculations indicate that 75% and below of the variables scored 77.78% of the maximum score, while 25% and below of the variables scored 33.33% of the maximum score. The second quartile indicated that 50% and below of the variables could score 5.

In terms of cross-country scores, the data range is between zero and 56 and the score range is between 11 and 49. The average mean of the score range is 29.56 while the standard deviation is 10.95. The first quartile is at 21.5 while the third quartile is at 38.5. The maximum score is 49 while the minimum is only 11. The skewness and kurtosis are well below 1. These indications suggested that the nine countries have different levels of compliance and the gaps between countries is considerably large.

Table 6-9. Governance indices data analysis.

Descriptions		**Governance elements**		**Cross-country**	
		Value	Percentage	Value	Percentage
Central tendency and dispersion	Mean	4.75	53%	29.56	52.78%
	Median	5.00	56%	28.00	50.00%
	Range	9.00	100%	38.00	68.00%
	Variance	5.33	7%	119.80	3.82%
	Standard deviation	2.31	26%	10.95	19.55%
	Skewness	-0.09	-0.09	0.13	0.13
	Kurtosis	-0.83	-0.83	-0.29	-0.29
Percentile analysis	Maximum	9.00	100.00%	49.00	87.50%
	85 percentiles	7.45	82.78%	49.00	87.50%
	3rd Quartile (75)	7.00	77.78%	38.50	68.75%
	Median/2nd Quartile (50)	5.00	55.56%	28.00	50.00%
	1st Quartile (25)	3.00	33.33%	21.50	38.39%
	Minimum	0.00	0.00%	11.00	19.64%

Governance elements

The consolidated indices are made up of 56 governance elements and each element has a data range between zero to nine. The dataset has a mean of 4.75 with 2.31 standard deviation, which suggest that the scores are widely diverse, meaning each country has different rules on different governance elements. All data are plotted in the scattergram in Figure 6.1. The scattergram shows that there is no data concentration at any point and all data are widely distributed across the range. The highest concentration is at the five mark (11 elements scored), while the lowest is at the zero, one and nine mark (2 elements scored).

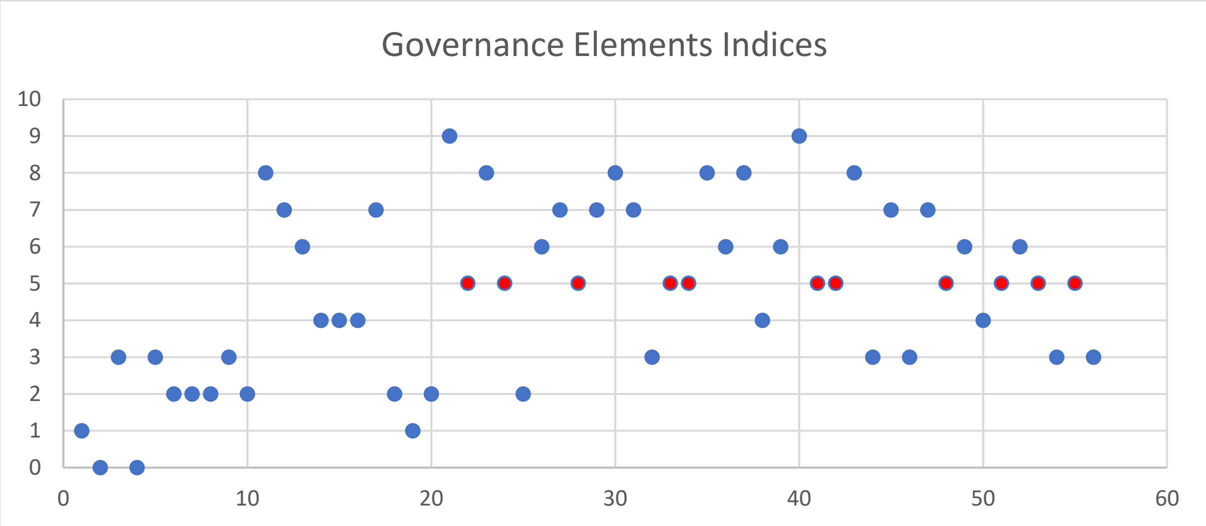

Figure 6-1. Governance element indices scatterplot.

The bell-shape curve (Figure 6.2) is based on the calculation of the normal distribution of the dataset. Data are widely distributed from zero to nine. One standard deviation (68%) is between the mean average 4.75 of minus and plus 2.31 (2.44 and 7.06).

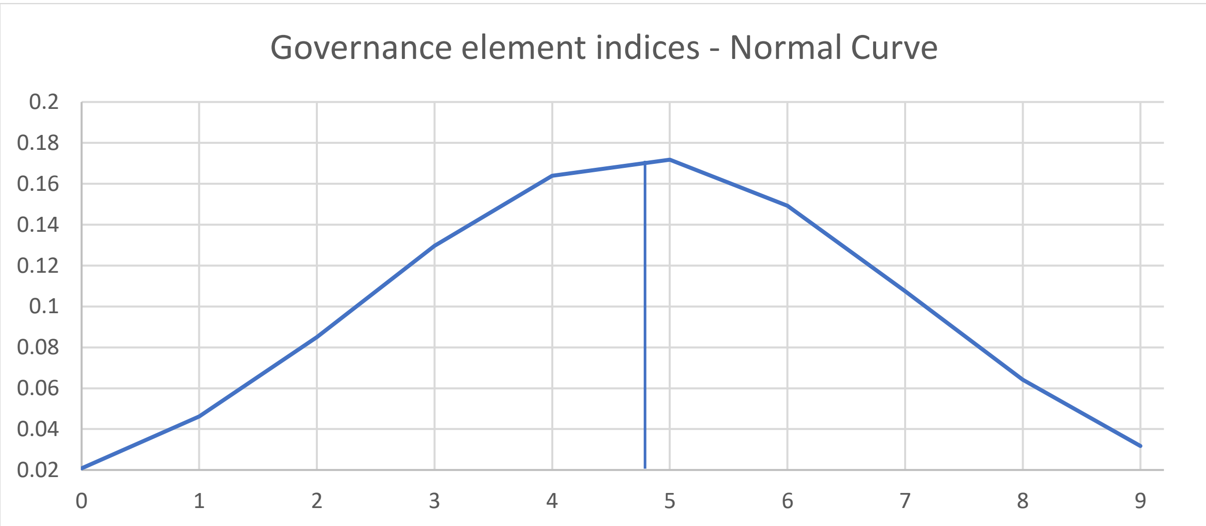

Figure 6-2. Governance element indices – Normal Curve.

The box-chart in Figure 6.3 provides an understanding of the dataset in terms of percentile analysis. The blue shaded area is data within the first and third quartile while the second quartile is marked in the middle. The unshaded area is data outside the first and third quartile. The governance score of three and below are within the first quartile, five and below are within the second quartile, and seven and below are within the third quartile. The chart indicated that data are widely distributed.

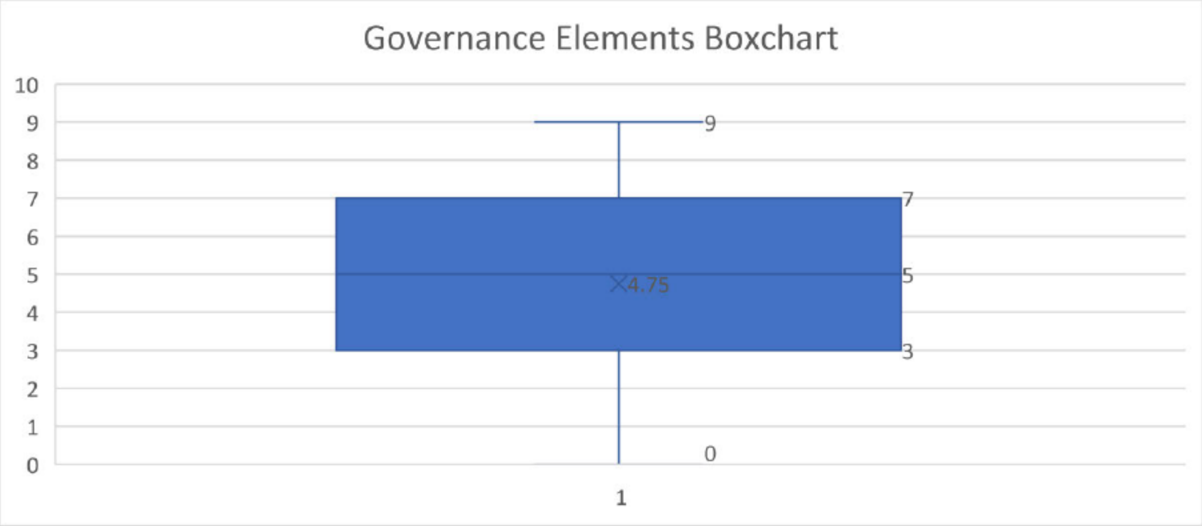

Figure 6-3. Governance elements box-chart data analysis.

Governance attributes and cross-country scores

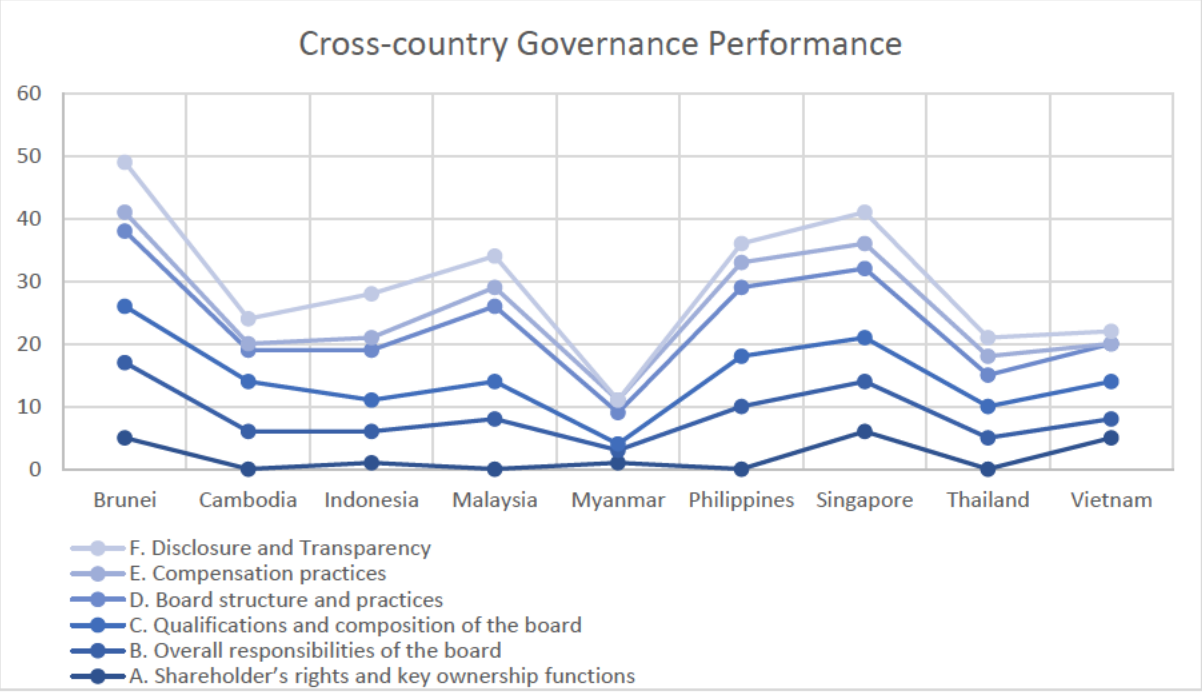

Figure 6-4. Governance attribute indices by country.

Based on the consolidated data, the findings show the patterns of governance rules in each country and the level of country compliance with the BCBS's governance standard. These results are based on the calculation of the sum of the country's performance in all the six governance attributes, illustrated in the line chart in Figure 6.4. Each line represents the country's performance in each governance attribute that comprises a different number of variables (the number of variables is constant across all countries). It is presented in a cumulative approach that depicts a country's overall performance of the indices and allows a comparison of them. For instance, the best performer is Brunei which peaks in the line chart at a score of 49, followed by Singapore and the Philippines. The poorest performer is Myanmar. It is also noted that the gaps between each governance attribute for a single country are also asymmetrical across all countries, and as a result, the lines do not cross one another. This phenomenon explains that a country's bank governance rules are systematically poor, moderately written, or comprehensive, in other words, any single country which does not have more comprehensive rules on a governance attribute and less comprehensive rules on another governance attribute (vice versa) when compared with another country. If a country has a weak set of rules on a particular governance attribute, the overall bank governance rules tend to follow the same direction.

6.2.5 SUMMARY

The assessment of bank governance indices was conducted according to plan and there was no major issue during the process. Even though some criteria are indecisive, they are treated as "errors" according to the methodology set out earlier. The frequency of errors is rare therefore and did not affect the coefficient reproducibility of the scalogram. There are two compliance items that were regarded as the most indecisive criteria (3 errors). First is the aspect that "the board should oversee senior management and hold them accountable for their actions and enumerate possible consequences". It was regarded to be indecisive because the rule stipulated that the board should oversee management, however it did not specify the second half of the criterion which is to hold them accountable and enumerate possible consequence. The second case is on the criterion of disclosure of all material developments that arise between regular reports to the bank supervisor and relevant stakeholders. The error was assigned to the case that mentioned bank supervisors and failed to specify stakeholders, and vice versa.

The section on data analysis is based on the univariate data analysis approach due to the nature of the data. The size of the data set allowed for the calculation of the full population of countries rather than a sample calculation. Primary data translation was provided and further discussion on these results is given in the next chapter.

In summary, there is no major, remaining issue that would affect the results of the indices assessment. The study provided the expected results that either confirm or contradict the research propositions.

6.3 BANK GOVERNANCE CONVERGENCE TENDENCY

This section of the chapter provides findings of the ASEAN bank governance convergence tendency based on corporate governance convergence theories from the literature review chapter. It is dedicated to achieving the third and fourth research objectives, hence answering the third and fourth research sub-questions. The third sub-question is *what do the theories suggest as to the likelihood of convergence to an ASEAN single standard of bank governance?* The exploration of this question also enabled further discussions on achieving increased coherency in the ASEAN bank governance framework which is the fourth objective of the study. The last sub-question of the research is *what is the most suitable model of ASEAN bank governance, whether to converge toward the Western-based corporate governance model or to diverge toward its own design?* The explanations to both questions depend on the results of the findings on the corporate governance convergence forces explained in this section.

The convergence forces are categorized into four premises: legal and ownership structure, political ideologies and interests, cultural traits, and economic and institutional factors. Table 6.10 illustrates the variables for the analysis and implications from the theories of governance convergence in the literature.

Table 6-10. ASEAN bank governance convergence analysis.

Premises	Measuring variables	Measuring methods	Theories implication (Convergence tendency)
Legal and ownership structure influences	Level of investor protections	Legal systems across jurisdictions (common-law, civil-law, and socialist legal systems) (LaPorta, Silanes & Shleifer 1998)[8]	Less variety of legal systems
	Presence of institutional investors	Number of banks owned by institutional investors [9], holding 50.01% or more of total shares (O'Sullivan 2000)	Relatively high number of institutional ultimate owners.
	Shift in favor of emerging shareholder class (widely held ownership)	The changes to the number of controlling shareholders (holding 50.01% or more of total shares) over the last 10 years[10] (Hansmann & Kraakman 2001)	The declining number of controlling shareholders
Political ideologies and interests	Degree of social democracy	The existence of banking associates representing bank's interest and consumer protection groups[11] representing consumer's interest (Roe 2003)	The existence of these two bodies
	Effectiveness of political stability	The world governance indicators of political stability [12] (Roe 2003)	Higher percentile ranking
Cultural traits	The degree of family capitalism	Number of ultimate owners who are named as individual/family, holding 50.01% or more of total shares (Keong 2002)	Less concentration of individual ultimate owners
Economy and institutional factors	Influence of (inflowed) FDIs	Number of banks owned by foreign ultimate owners, holding 50.01% or more of total share (Guillen 2000)	Relatively high number of foreign ultimate owners
	Path-dependent way to pursue different competitive advantages	Country's competitive advantage based on sectoral contribution to the aggregated trades in products and services (Bebchuk, Lucian & Roe 1999)	Similar pattern of sectoral contributions to aggregated trade
	Corporate identities	The composition of active total country's bank credit classified by economic sectors (Clarke 2007b)	Similar pattern of outstanding credit by sector

[8] LaPorta, Silanes and Shleifer (1998) focused on the origin of legal systems. They classified it into English common law origins and French, German, or Scandinavian civil law origins. The data of this study is based on JuriGlobe which classifies legal systems into civil law, common law, Muslim law, and customary law.

[9] Institutional investors including bank and financial companies, insurance companies, corporate companies, private equity firms, hedge funds, venture capital, mutual and pension funds, foundations/research institutions, public authorities, states, and governments.

[10] Period from 2010 to 2020.

[11] General consumer protection associations or advocates that have the coverage over financial products and services.

[12] The Worldwide Governance Indicators research database is managed by The World Bank Group.

6.3.1 LEGAL AND OWNERSHIP STRUCTURE

6.3.1.1 Legal systems [13] (investor protections)

According to the governance convergence view of LaPorta, Silanes and Shleifer (1998), the level of shareholder protection varies based on the origin of a country's legal system. For instance, common-law countries are found to have stronger shareholder protection while the weakest shareholder legal protections are generally found in civil-law countries. Based on the country's legal system review in chapter three, ASEAN countries are found to have diverse structures of legal systems. Some countries such as Cambodia, Thailand and Vietnam are based on civil law while the other countries have mixed legal systems. Table 6.11 summarizes the ASEAN countries' legal origins that were explored in chapter three.

Table 6-11. Legal systems in the ASEAN. Source: JuriGlobe Dataset of the University of Ottawa's Alphabetically Index of the 192 United Nations Member States and Corresponding legal system (JuriGlobe 2020).

Countries	Legal system	Mixed system
Brunei	Mixed	Common law /Muslim law /Customary law
Cambodia	Civil law	-
Indonesia	Mixed	Civil law/Muslim law/Customary law
Malaysia	Mixed	Common law/Muslim law/Customary law
Myanmar	Mixed	Common law/Customary law
Philippines	Mixed	Common law/Civil law
Singapore	Mixed	Common law/Muslim law
Thailand	Civil law	-
Vietnam	Civil law	-

[13] Legal system reviews are based on the University of Melbourne's (opened source) Southeast Asia Legal Research Guide: Regional and Comparative Resources (2020) and the JuriGlobe dataset of the University of Ottawa's Alphabetically Index of the 192 United Nations Member States and Corresponding legal system (JuriGlobe 2020).

6.3.1.2 Institutional investors

According to the theory proposed by O'Sullivan (2000), the presence of institutional investors is an enabling force of governance convergence. It imposes pressures on a company to converge toward a more transparent and shareholder-friendly model. Table 6.12 illustrates the number of banking institutes that are owned by institutional investors. Data on the institutional investors are extracted from the Orbis database. The institutional investors represented in the dataset include bank and financial companies, insurance companies, corporate companies, private equity firms, hedge funds, venture capital, mutual and pension funds, foundations/research institutions, public authorities, states, and governments. According to the Orbis database, there are a total of 2,830 banks in ASEAN countries[14] in which 21.67% are owned by institutional investors and about 16.57% of institutional investors hold 50.01% or more of shares (ultimate owners).

Table 6-12. Institutional investors in the ASEAN banking system in 2020. Source: Orbis Database (31st March 2020).

Countries	Number of banking institutes [15]	Number of banking institutes owned by institutions (0% - 100%)	Number of banking institutes owned by institutions (50.01% - 100%)
Brunei	30	2	0
Cambodia	85	30	26
Indonesia	1,293	160	132
Malaysia	188	109	97
Myanmar	154	18	15
Philippines	353	89	57
Singapore	277	63	58
Thailand	168	70	38
Vietnam	282	73	46
Total	2,830	614	469
Percentage	100%	21.70% [16]	16.57% [17]

[14] Excluding Laos
[15] The number of banking institutes is extracted from the Orbis database. Unfortunately, the database does not provide the definition of "bank". Therefore, the number of banks might differ from the country reviews given in chapter three, which are based on central bank data from the category of "commercial bank".
[16] Number of banking institutes owned by institutions (0% - 100%) is comparative to 4.15%, 1.41%, and 2.86% in the United States, Australia, and Euro Area, respectively.
[17] Number of banking institutes owned by institutions (50.01% - 100%) is comparative to 3.44%, 1.24%, and 2.15% in the United States, Australia, and Euro Area, respectively.

6.3.1.3 Changes of shareholder classes

The theory proposed by Hansmann and Kraakman (2001) suggests that the current convergence of governance models (in the U.S. and economies of a similar level of capital market development) is explained by the pervasive shareholder classes since the start of the twentieth century, when previously a small group of wealthy elites owned a majority of company stocks. The flourishing shareholder class is not itself a phenomena of increasing stock owners, naturally it coincides with the shift toward protectionism of the minority and non-controlling shareholders over major interests. Thus, the shift confirms tendency toward convergency.

The shift of shareholder class toward a more widely held ownership is measured through the changes to the number of controlling shareholders (holding 50.01% or more of total shares) over the last 10 years. However, data on the changes alone are not justifiable, due to the number of newly established banking institutes over the same period. Therefore, information on the changes in the number of controlling shareholders must be accompanied by information on the changes to the number of institutions. Table below (6.13) illustrates a number of those changes.

Table 6-13. Shift of shareholder class in the ASEAN during 2010-2020. Source: Orbis Database (2010-2020).

Countries	**Number of banking institutes** [18]			**Number of controlling shareholders (50.01% - 100%)**		
	2010	**2020**	**Changes**	**2010**	**2020**	**Changes**
Brunei [19]	29	30	1	0	0	-
Cambodia	78	85	7	25	27	2
Indonesia	1,292	1,293	1	108	108	-
Malaysia	185	188	3	86	87	1
Myanmar	73	154	81	16	16	-
Philippines	331	353	22	45	47	2
Singapore	257	277	20	54	55	1
Thailand	162	168	6	36	37	1
Vietnam	276	282	6	41	45	4
Total	2,683	2,830	147	411	422	11
Percentage	100%	105%	5% [20]	100%	103%	3% [21]

[18] The number of banking institutes is extracted from Orbis database. Unfortunately, the database does not provide a definition of "bank". Therefore, the number of banks might differ from the country reviews in chapter three, which are based on central bank data from the category of "commercial bank".
[19] Banks in Brunei are in the form of a private entity and some are wholly owned. There is very limited data in the Orbis database and there is no indication as to the ultimate owner.
[20] Changes in the number of banking institutes are comparative to 0.07%, 0.03%, and 0.01% in the United States, Australia, and Euro Area, respectively.
[21] Changes in the number of controlling shareholders are comparative to 0.03%, 0.07% and 0.06% in the United States, Australia, and Euro Area, respectively.

6.3.2 POLITICAL IDEOLOGIES AND INTERESTS

6.3.2.1 Social democracy

According to (Roe 2003), corporate governance diffusion will not occur as a result of political forces that influence different countries in different ways. For instance, the level of social democracy varies across countries and thus has a diverse influence on governance systems. In the case of the bank governance in this research, this section studies the level of social democracy in the ASEAN banking system through the existence of banking associations that aim to voice and protect the interests of banks, and a financial consumer protection mechanism and consumer advocacy groups supporting the interests of financial consumers.

To start with, in each of the ASEAN countries, there is one association for banks. The associations are established to achieve a common purpose (among others) which is to protect the legitimate rights and interests of the bank members and the association and to raise the voice of policy advocacy within the banking regulatory frameworks (ABA 2020). In the case of the ASEAN Bankers Association (ABA), it created the ASEAN Bank Council as the executive arm that serves the purpose (among others) of strengthening the voice of the ASEAN in policy advocacy efforts globally and regionally (ABA 2020). The purposes of the ASEAN's and individual country's bank association are aligned with each other which in essence is to influence the policy formulation and implementation processes or, from the political terminology, could be said to promote social democracy within the banking communities domestically and regionally. Table 6.14 lists the banking associations in ASEAN countries.

Table 6-14. Banking associations in the ASEAN. Source: ASEAN and individual countries' bank association websites.

Countries	**Banking associations**	**Year founded**
ASEAN	The ASEAN Bankers Association	1976
Brunei [22]	The Brunei Association of Banks	-
Cambodia	The Association of Banks in Cambodia	1994
Indonesia	Indonesian Banks Association (PERBANAS)	1951
Malaysia	The Association of Banks in Malaysia	1973
Myanmar	Myanmar Banks Association	1999
Philippines	Bankers Association of the Philippines	1949
Singapore	The Association of Banks in Singapore	1973
Thailand	The Thai's Banker Association	1958
Vietnam	Vietnam's Banks Association	1994

[22] The Brunei Association of Banks (BAB) previously had the role of running payment system of the country, which is commonly under the operation of the central bank or government national clearing house (Almeida, Fry & Goodhart 1996). The role was taken over by the AMBD (central bank) when it was first established in 2011 (AMBD 2016a). The current role of the BAB is to provide platforms for discussion among member banks and to support policies set out by the central bank. Its history and establishment year has not been disclosed.

On the aspect of regulatory financial-consumer protections, the function is resumed by an independent watch-dog (in a twin-peak banking supervisory arrangement) or else by the banking authority (FSB 2011). For instance, for the former, the Australia Competition and Consumer Commission have mandated (among others) to protect the interests and safety of consumers (including the banking sector). On the other hand, in the case of sectoral, integrated, and partially integrated regulatory models[23] the institutional arrangement that is designed to protect financial-consumers is generally to rely on a single-agency approach in which the agency is responsible for both prudential regulations and the business financial conduct including consumer protection (FSB 2011). For example, in all the ASEAN countries, the banking authorities have the power to supervise both the prudential matters and business conduct of banks. The Thai authority (the only ASEAN country) has shown stronger commitment to financial consumer protection by establishing a dedicated one-stop service center[24] to handle enquiries, and resolve, coordinate, and track complaints on financial products and services.

In terms of the wider scope of general consumer protections, there are general consumer protection laws and enforcement bodies. These laws are designed for consumer protection on the acquisition of general goods and services, however they also have the scope and coverage of financial services consumers. Table 6.15 details the general consumer protection laws and enforcement bodies in all the ASEAN countries and shows a list of consumer advocacy groups in each country. Only Cambodia and the Philippines do not have a consumer advocacy group.

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[23] Refer to chapter three on the ASEAN country review of bank supervisory models. All ASEAN countries adopted either a sectoral, integrated, or partial integrated model.
[24] Financial Consumer Protection Center of Thailand was established in 2012 (ASEAN 2018c).

Table 6-15. General consumer protection laws and consumer associations in ASEAN countries. Source: Handbook on ASEAN consumer law protections and regulations (ASEAN 2018c)

Countries	General consumer protection laws	Latest adoption/amendment year	Enforcement bodies	Consumer advocacy associations
Brunei	The Consumer Protection (Fair Trading) Order	2011	Department of Economic Planning and Development	Consumer Association of Brunei Darussalam
Cambodia [25]	Drafting	n/a	n/a	n/a
Indonesia	Law on Consumer Protection (Law No.8)	1999	Directorate of Consumer Empowerment	Indonesia Consumers Organization
Malaysia	Consumer Protection Act (CPA)	1999	Ministry of Domestic Trade, Cooperatives, and Consumerism	Federation of Malaysian Consumers Associations
Myanmar	Law on Consumer Protection of the Union of Myanmar	2014	Department of Consumer Affairs	Myanmar Consumer Union
Philippines	Consumer Act (Republic Act No. 7394)	1992	Consumer Protection and Advocacy Bureau	n/a
Singapore	Consumer Protection (Fair Trading) Act (CPFTA)	2003	Ministry of Trade and Industry	The Consumer Association of Singapore
Thailand	Consumer Protection Act 1979	2013	Office of the Consumer Protection Board	Foundation for Consumers
Vietnam	Law on Protection of Consumer Rights	2010	Vietnam Competition and Consumer Protection Authority	Vietnam Standard and Consumers Association

[25] Cambodia is the only ASEAN nation that currently does not have consumer protection act nor an active consumer protection association/advocate.

6.3.2.2 Political stability

Roe (2003) argued that the corporate governance structure among other political determinants was dependent on the condition of political stability. Social turmoil such as rioting, strike, civil war, unrest, political chaos, and unstable government in different countries explains the diverse forms of governance structure (Roe 2003). Based on this theory, this research defines the tendency of bank governance convergence through a comparison of the states of political stability across the ASEAN countries via the indicators in Table 6.16. The political stability indicators[26] [27] are from the World Governance Indicators of the World Bank which measure the perceptions of the likelihood of political instability in each respective country.

Table 6.16 and Figure 6.5 detail the 10-year trend of ASEAN nations' political stability indicators in the years 2008 and 2018 (2018 is the latest available data). The governance scores are estimates of political stability measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. The percentile rank is a comparison of the studied countries to all countries worldwide with a zero-percentile corresponding to the lowest rank (poor performer) and 100 percentiles corresponding to the highest rank (good performer). The standard error represents the precision of the estimations of political stability in each country. The lower the value corresponds to better estimated precision.

[26] The World Bank data (political stability indicators) are gathered from 32 sources from a number of think tanks, non-governmental organization, survey institutes, international organizations and private sector firms.
[27] Variables included in the dataset are also responsive to acts of violence (large scale) and terrorism.

Table 6-16. Political stability indicators in ASEAN countries - 10-year trend. Source: The Worldwide Governance Indicators of The World Bank (2020).

Country	Year	Governance (-2.5 to +2.5)	Percentile rank	Standard Error
Brunei	2008	1.13	89.9	0.3
	2018	1.2	91.9	0.2
Cambodia	2008	-0.3	34.6	0.3
	2018	0.11	51.4	0.2
Indonesia	2008	-1.06	15.9	0.2
	2018	-0.53	27.6	0.2
Malaysia	2008	0.11	48.6	0.2
	2018	0.24	54.3	0.2
Myanmar	2008	-1.09	15.4	0.3
	2018	-1.31	10.5	0.2
Philippines	2008	-1.78	8.2	0.2
	2018	-1.12	12.9	0.2
Singapore	2008	1.35	99	0.2
	2018	1.51	98.6	0.2
Thailand	2008	-1.27	12.5	0.2
	2018	-0.73	19.5	0.2
Vietnam	2008	0.16	49.5	0.2
	2018	0.2	53.8	0.2

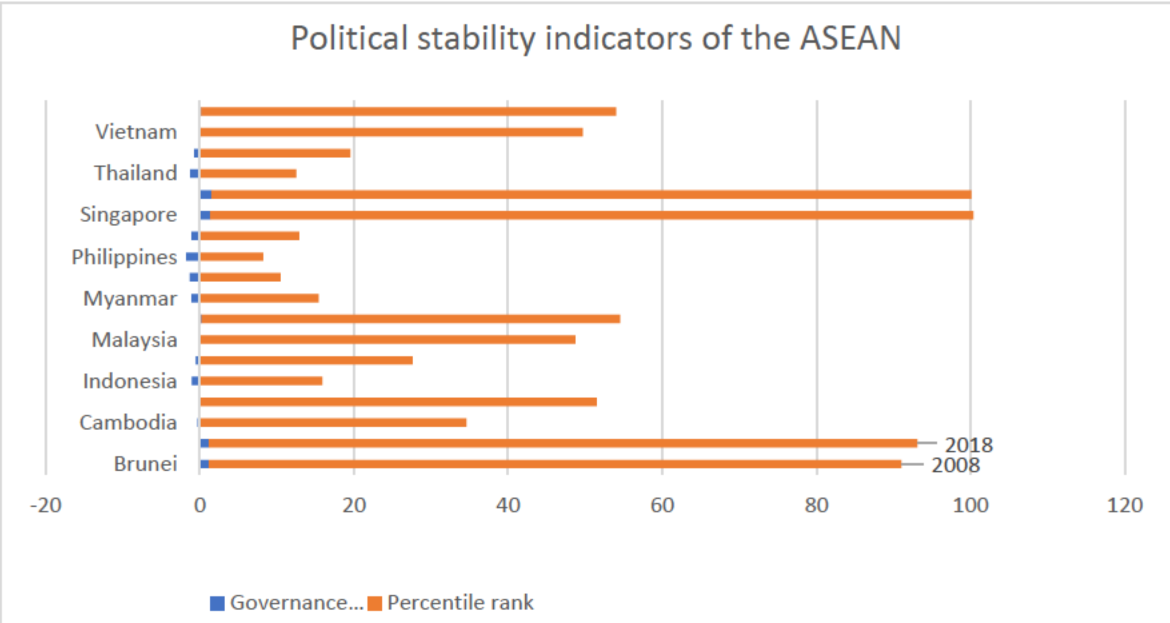


Figure 6-5. Political stability indicators in ASEAN countries[28] - 10-year trend. Source: The Worldwide Governance Indicators of The World Bank (2020).

[28] Variables included in the dataset are also responsive to acts of violence (large scale) and terrorism.

6.3.3 CULTURAL TRAITS

6.3.3.1 Family capitalism

Family capitalism is used by Keong (2002) to explain the role of cultural traits in a divergent corporate governance system. The main reason to explain this phenomenon is that the adaptation of a Western-based system or standard principles would undermine the family influences on major corporate decisions and a willingness to relinquish corporate power is unlikely (Keong 2002). Family power is employed in corporate businesses that tend to drive heterogenous governance practices based on individual ideology and interests. Therefore, in stronger family capitalism regimes, corporate governance systems tend to be diverse.

In a bid to unfold the family capitalism theory on the ASEAN bank governance convergence tendency, the research studied the level of family control of the ASEAN banking system and drew findings based on a comparison with other regions. Family capitalism is measured through the minimum percentage of control equal to or more than 50.01% and the ultimate owner must be one or more named individuals/families. Table 6.17 details the number of banks ultimately owned by individuals/families corresponding to total number of banks.

Table 6-17. Family Capitalism in the ASEAN banking system in 2020. Source: Orbis Database (31st March 2020).

Countries	**Number of banking institutes [29]**	**Number of banking institutes owned by individuals/families (50.01% - 100%)**
Brunei	30	0
Cambodia	85	3
Indonesia	1,293	15
Malaysia	188	2
Myanmar	154	2
Philippines	353	4
Singapore	277	6
Thailand	168	2
Vietnam	282	5
Total	2,830	39
Percentage	100%	1.38% [30]

[29] The number of banking institutes is extracted from the Orbis database. Unfortunately, the database does not provide a definition of "bank". Therefore, the number of banks might differ from the country reviews in chapter three, which are based on central bank data from the category of "commercial bank".
[30] The number of banking institutes owned by individual/family is comparative to 0.55%, 0.26%, and 0.44% in the United States, Australia, and Euro Area, respectively.

6.3.4 ECONOMY AND INSTITUTIONAL FACTORS

6.3.4.1 Influence of FDIs

Guillen (2000) viewed that the inflow of foreign direct investments (FDIs) influences the convergence effect of governance practices in a particular country. For instance, recipient countries of funds tend to be pressured toward standardized corporate governance approaches. Based on this theory, the research studies the level of FDIs in the ASEAN banking system and draws conclusions on its effects on the tendency toward bank governance convergence. The influence of FDIs in this study refers to the impact on a specific country of ownership by foreigners (combined) through direct or total participation, regardless of the country of origin. Table 6.18 shows that foreign ownership in the ASEAN banking sector can be divided into two categories. The first is any ownership of combined foreigner shares that accounts for more than 1%. The second is the ultimate owners or the controlled ownership by foreigners that accounts for more than 50.01%. The latter has significant power to shape or influence the structure of local banking institutes.

Table 6-18. Foreign shareholders of the ASEAN banking system in 2020. Source: Orbis Database (31st March 2020).

Countries	**Number of banking institutes [31]**	**Number of banking institutes owned by foreigners (1% - 100%)**	**Number of banking institutes owned by foreigners (50.01% - 100%)**
Brunei	30	0	0
Cambodia	85	28	23
Indonesia	1,293	116	57
Malaysia	188	62	31
Myanmar	154	8	5
Philippines	353	28	10
Singapore	277	50	39
Thailand	168	53	19
Vietnam	282	44	16
Total	2,830	389	200
Percentage	100%	13.75% [32]	7.07% [33]

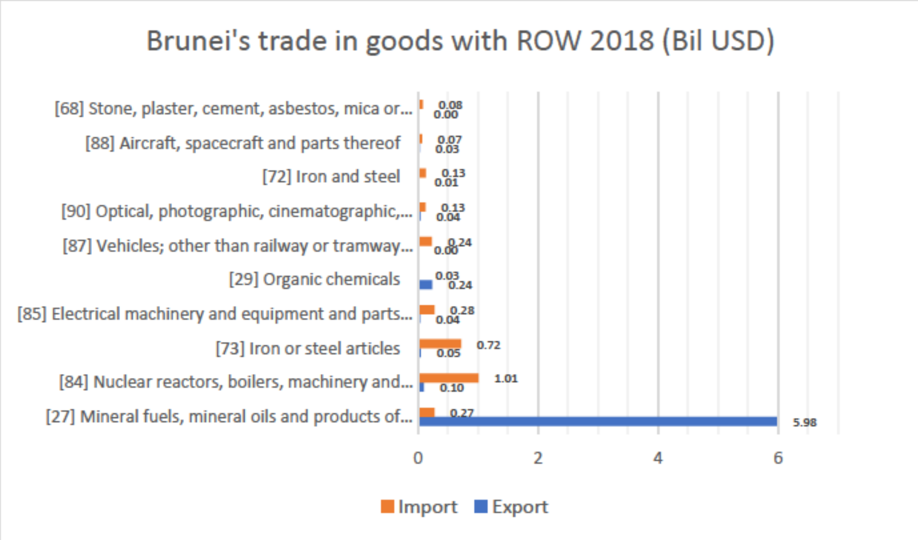
[31] The number of banking institutes is extracted from the Orbis database. Unfortunately, the database does not provide a definition of “bank”. Therefore, the number of banks might differ from the country reviews in chapter three, which are based on central bank data from the category of “commercial bank”.
[32] Number of banks that are more than 1% owned by foreigners are comparative to 0.52%, 0.95%, and 1.53% in the United States, Australia, and Euro Area, respectively.
[33] Number of banks that are majority owned by foreigners (50.01%) are comparative to 0.20%, 0.46%, and 0.97% in the United States, Australia, and Euro Area, respectively.

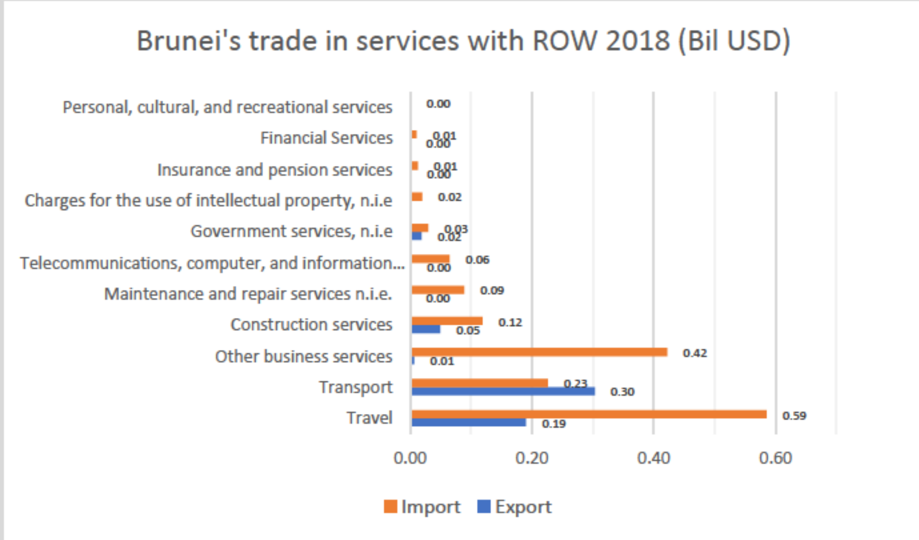
6.3.4.2 Institutional approaches and competitive advantages

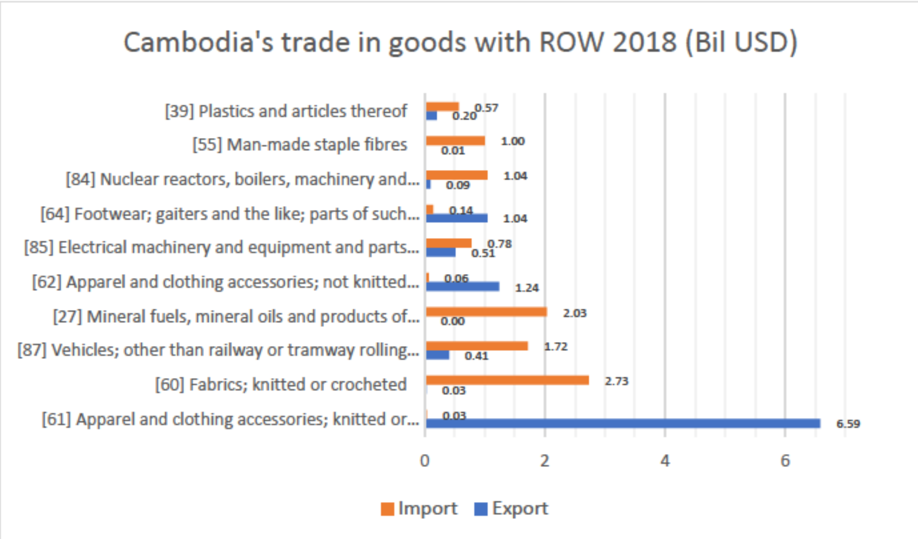
Bebchuk, Lucian and Roe (1999) proposed a theory of the relationship of governance diversity with the justification of a path-dependent way of corporate governance. It refers to different institutional approaches across countries that involve different sets of corporate governance systems, which firms and countries use to pursue different competitive advantages. For example, Japanese's Keiretsu model, German's Technik, the French model of elite engineering, and the American approach focus on individualism, entrepreneurship, and customer satisfaction. The research examines such relationships in the context of ASAEN countries through aggregated data on trades in products and services. The data points out the economic sector contributions that indicate different competitive advantages in different ASEAN countries. The data used are secondary data extracted from the ASEAN repository for ASEAN statistical databases (ASEANstats 2020). All data are represented in the charts on the following pages.

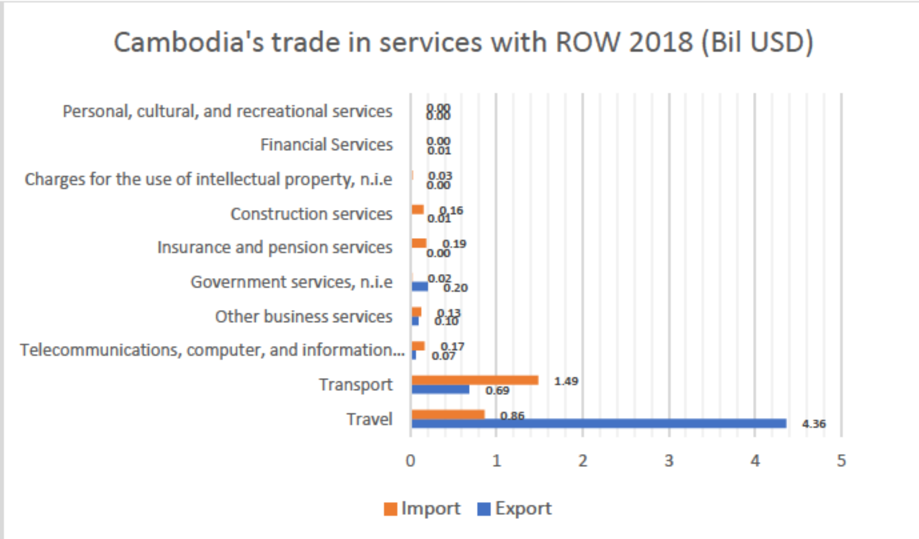
Service traded items are classified into 12 categories, as shown in the charts. Good-traded items are classified according to the harmonized commodity description and coding system (HS) at HS-2 digit level, categorized into 99 classes[34]. Only the top ten traded goods are presented in the charts. Data are consistently presented in the unit of billions of US dollars at the end of financial year 2018 (latest available data). Data were extracted in the form of spreadsheets.

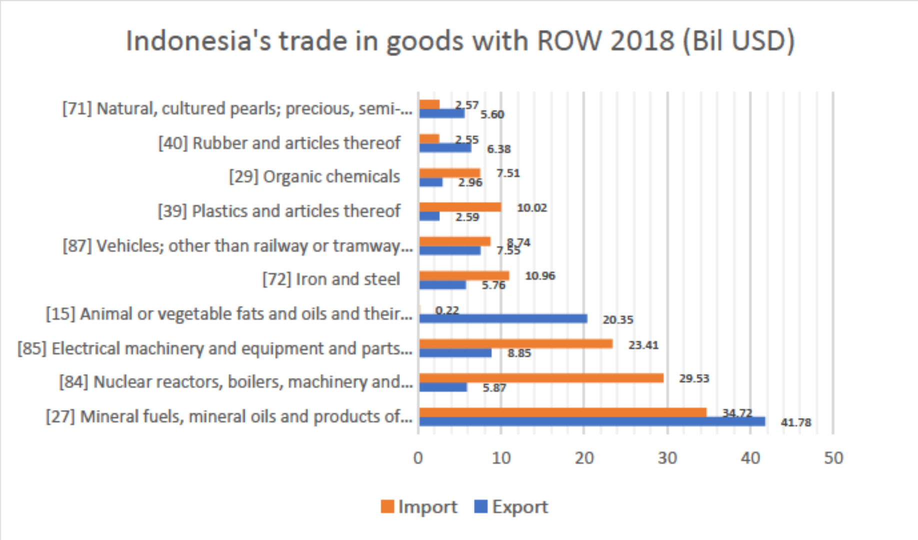
[34] The full list of classes can be found at the United Nations Trade Statistics website at: https://unstats.un.org/unsd/tradekb/Knowledgebase/Harmonized-Commodity-Description-and-Coding-Systems-HS

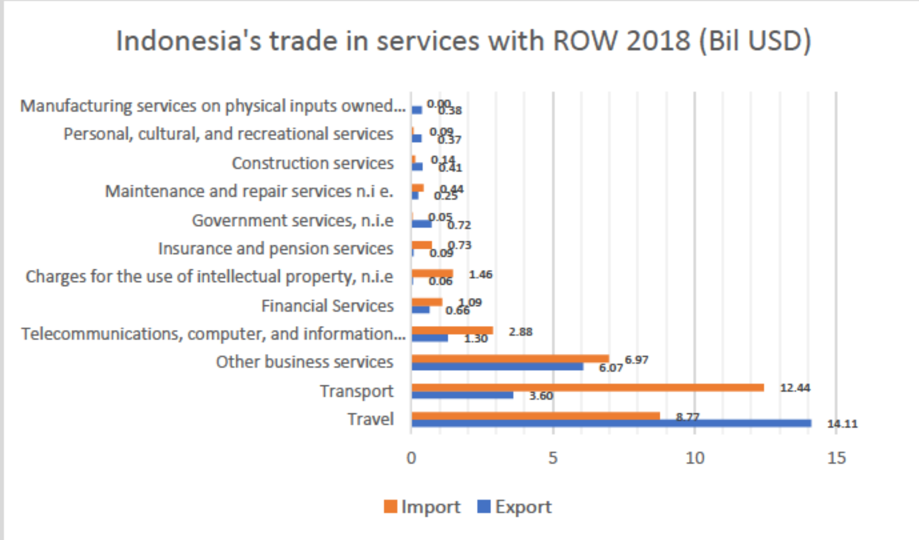

Brunei's trade in goods with ROW 2018 (Bil USD)
[68] Stone, plaster, cement, asbestos, mica or...
[88] Aircraft, spacecraft and parts thereof
[72] Iron and steel
[90] Optical, photographic, cinematographic,...
[87] Vehicles; other than railway or tramway...
[29] Organic chemicals
[85] Electrical machinery and equipment and parts...
[73] Iron or steel articles
[84] Nuclear reactors, boilers, machinery and...
[27] Mineral fuels, mineral oils and products of...
Import
Export

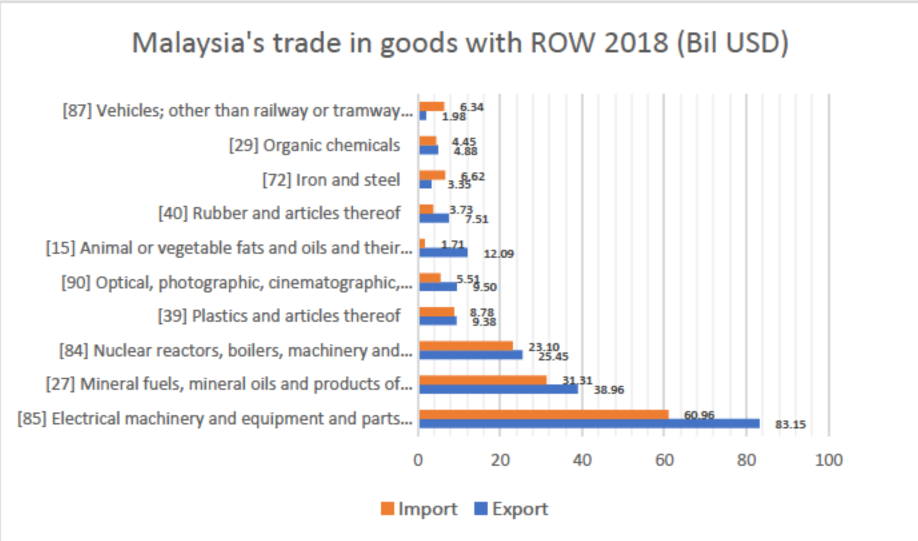

Brunei's trade in services with ROW 2018 (Bil USD)
Personal, cultural, and recreational services
Financial Services
Insurance and pension services
Charges for the use of intellectual property, n.i.e
Government services, n.i.e
Telecommunications, computer, and information...
Maintenance and repair services n.i.e.
Construction services
Other business services
Transport
Travel
Import
Export

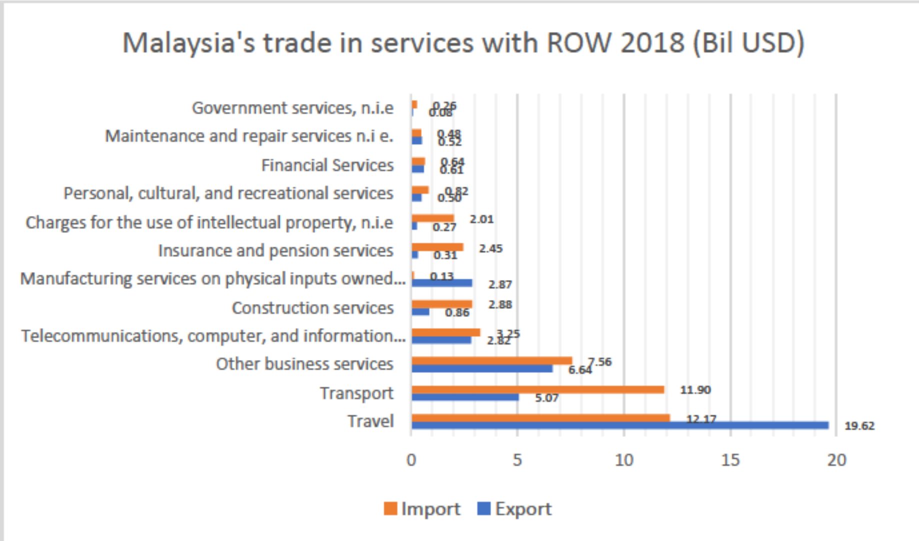

Cambodia's trade in goods with ROW 2018 (Bil USD)
[39] Plastics and articles thereof
[55] Man-made staple fibres
[84] Nuclear reactors, boilers, machinery and...
[64] Footwear; gaiters and the like; parts of such...
[85] Electrical machinery and equipment and parts...
[62] Apparel and clothing accessories; not knitted...
[27] Mineral fuels, mineral oils and products of...
[87] Vehicles; other than railway or tramway rolling...
[60] Fabrics; knitted or crocheted
[61] Apparel and clothing accessories; knitted or...
Import
Export

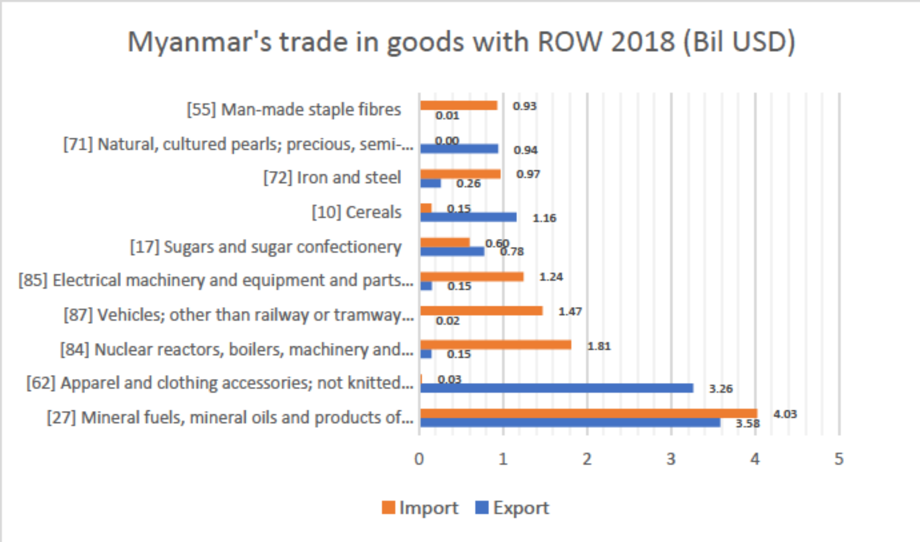

Cambodia's trade in services with ROW 2018 (Bil USD)
Personal, cultural, and recreational services
Financial Services
Charges for the use of intellectual property, n.i.e
Construction services
Insurance and pension services
Government services, n.i.e
Other business services
Telecommunications, computer, and information...
Transport
Travel
Import
Export

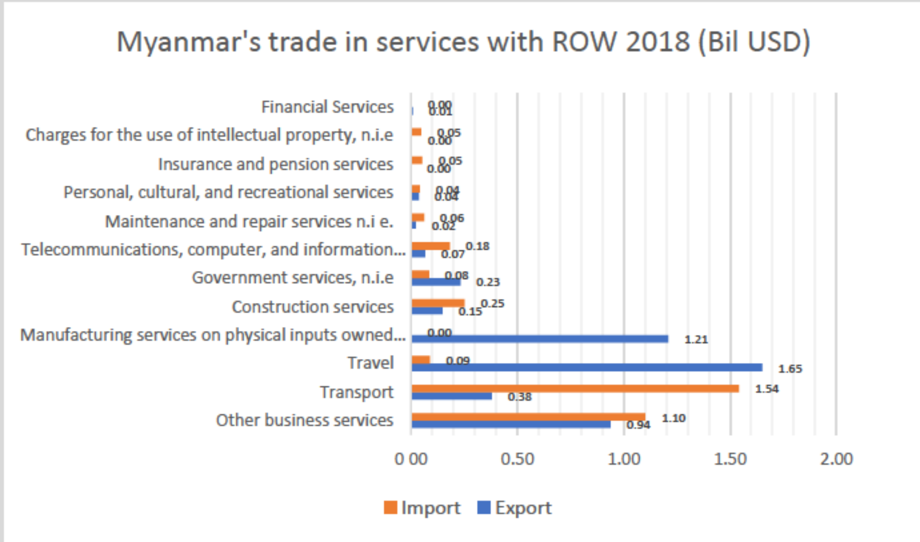

Indonesia's trade in goods with ROW 2018 (Bil USD)
[71] Natural, cultured pearls; precious, semi-...
2.57
5.60
[40] Rubber and articles thereof
2.55
6.38
[29] Organic chemicals
7.51
2.96
[39] Plastics and articles thereof
10.02
2.59
[87] Vehicles; other than railway or tramway...
8.74
7.55
[72] Iron and steel
10.96
5.76
[15] Animal or vegetable fats and oils and their...
0.22
20.35
[85] Electrical machinery and equipment and parts...
23.41
8.85
[84] Nuclear reactors, boilers, machinery and...
29.53
5.87
[27] Mineral fuels, mineral oils and products of...
34.72
41.78
0
10
20
30
40
50
Import
Export

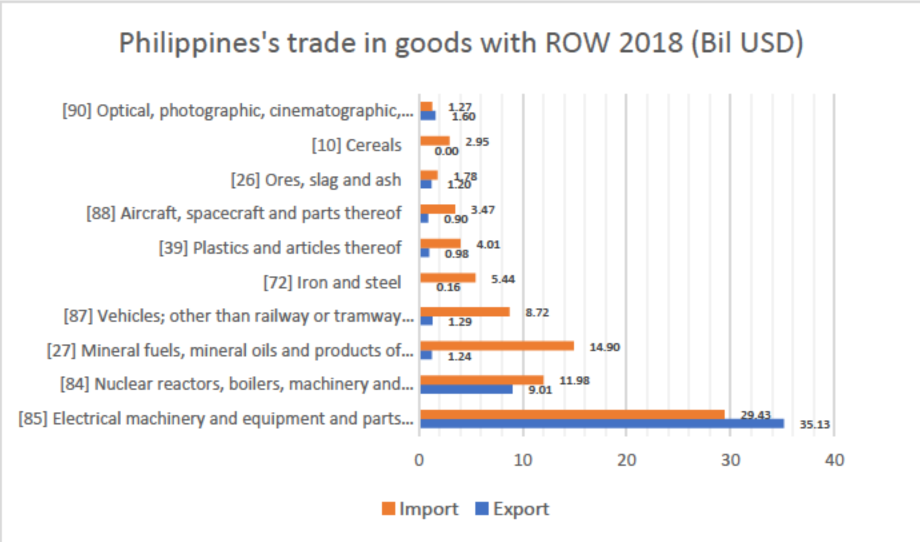

Indonesia's trade in services with ROW 2018 (Bil USD)
Manufacturing services on physical inputs owned...
0.00
0.38
Personal, cultural, and recreational services
0.09
0.37
Construction services
0.14
0.41
Maintenance and repair services n.i e.
0.44
0.25
Government services, n.i.e
0.05
0.72
Insurance and pension services
0.73
0.09
Charges for the use of intellectual property, n.i.e
1.46
0.06
Financial Services
1.09
0.66
Telecommunications, computer, and information...
2.88
1.30
Other business services
6.97
6.07
Transport
12.44
3.60
Travel
8.77
14.11
0
5
10
15
Import
Export

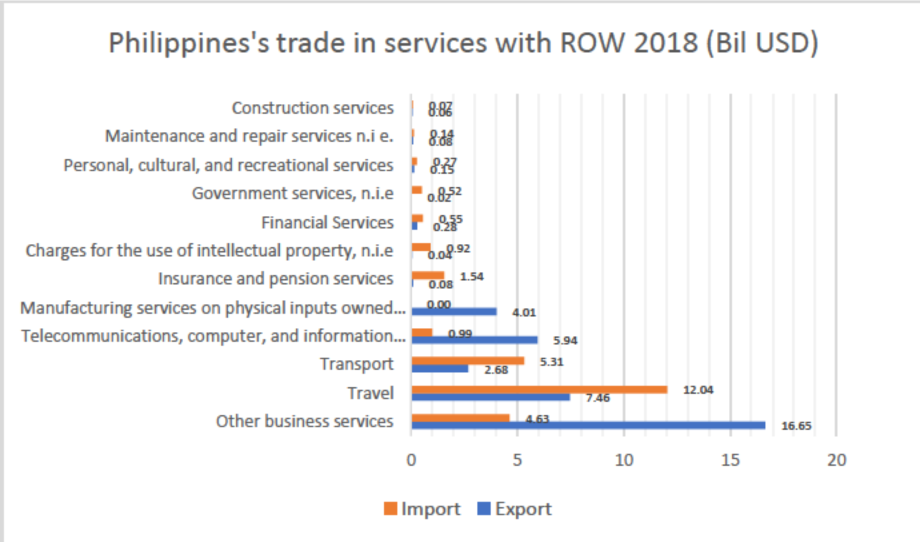

Malaysia's trade in goods with ROW 2018 (Bil USD)
[87] Vehicles; other than railway or tramway...
6.34
1.98
[29] Organic chemicals
4.45
4.88
[72] Iron and steel
6.62
3.35
[40] Rubber and articles thereof
3.73
7.51
[15] Animal or vegetable fats and oils and their...
1.71
12.09
[90] Optical, photographic, cinematographic,...
5.51
9.50
[39] Plastics and articles thereof
8.78
9.38
[84] Nuclear reactors, boilers, machinery and...
23.10
25.45
[27] Mineral fuels, mineral oils and products of...
31.31
38.96
[85] Electrical machinery and equipment and parts...
60.96
83.15
0
20
40
60
80
100
Import
Export

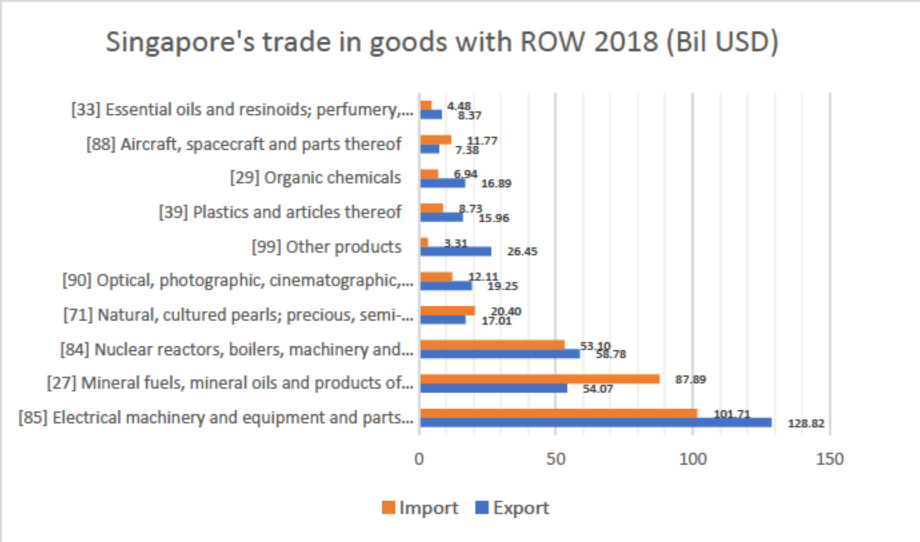

Malaysia's trade in services with ROW 2018 (Bil USD)
Government services, n.i.e
0.26
0.08
Maintenance and repair services n.i e.
0.48
0.52
Financial Services
0.64
0.61
Personal, cultural, and recreational services
0.82
0.50
Charges for the use of intellectual property, n.i.e
2.01
0.27
Insurance and pension services
2.45
0.31
Manufacturing services on physical inputs owned...
0.13
2.87
Construction services
2.88
0.86
Telecommunications, computer, and information...
3.25
2.82
Other business services
7.56
6.64
Transport
11.90
5.07
Travel
12.17
19.62
0
5
10
15
20
Import
Export

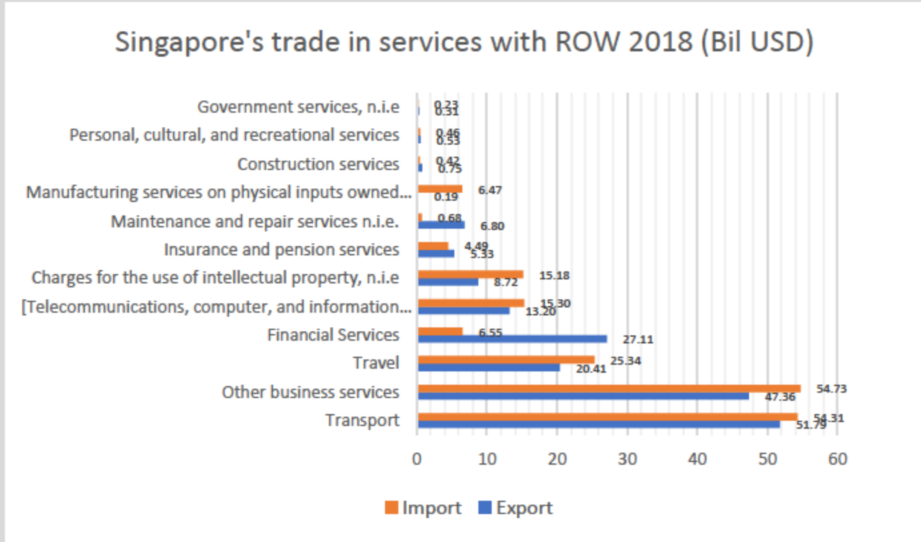

Myanmar's trade in goods with ROW 2018 (Bil USD)
[55] Man-made staple fibres
0.93
0.01
[71] Natural, cultured pearls; precious, semi-...
0.00
0.94
[72] Iron and steel
0.97
0.26
[10] Cereals
0.15
1.16
[17] Sugars and sugar confectionery
0.60
0.78
[85] Electrical machinery and equipment and parts...
1.24
0.15
[87] Vehicles; other than railway or tramway...
1.47
0.02
[84] Nuclear reactors, boilers, machinery and...
1.81
0.15
[62] Apparel and clothing accessories; not knitted...
0.03
3.26
[27] Mineral fuels, mineral oils and products of...
4.03
3.58
0
1
2
3
4
5
Import
Export

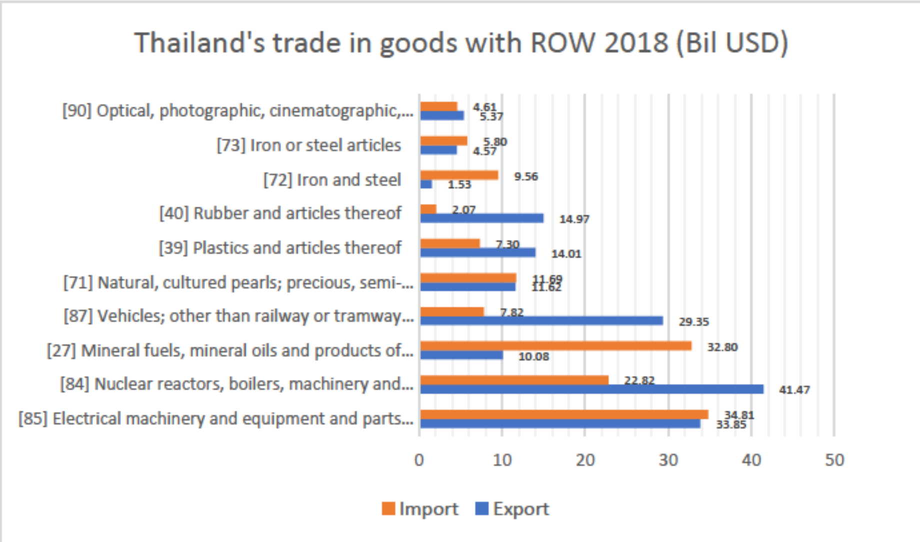

Myanmar's trade in services with ROW 2018 (Bil USD)
Financial Services
Charges for the use of intellectual property, n.i.e
0.05
0.00
Insurance and pension services
0.05
0.00
Personal, cultural, and recreational services
Maintenance and repair services n.i e.
0.06
0.02
Telecommunications, computer, and information...
0.18
0.07
Government services, n.i.e
0.08
0.23
Construction services
0.25
0.15
Manufacturing services on physical inputs owned...
0.00
1.21
Travel
0.09
1.65
Transport
1.54
0.38
Other business services
1.10
0.94
0.00
0.50
1.00
1.50
2.00
Import
Export


Philippines's trade in goods with ROW 2018 (Bil USD)
[90] Optical, photographic, cinematographic,...
1.27
1.60
[10] Cereals
2.95
0.00
[26] Ores, slag and ash
1.78
1.20
[88] Aircraft, spacecraft and parts thereof
3.47
0.90
[39] Plastics and articles thereof
4.01
0.98
[72] Iron and steel
5.44
0.16
[87] Vehicles; other than railway or tramway...
8.72
1.29
[27] Mineral fuels, mineral oils and products of...
14.90
1.24
[84] Nuclear reactors, boilers, machinery and...
11.98
9.01
[85] Electrical machinery and equipment and parts...
29.43
35.13
0
10
20
30
40
Import
Export

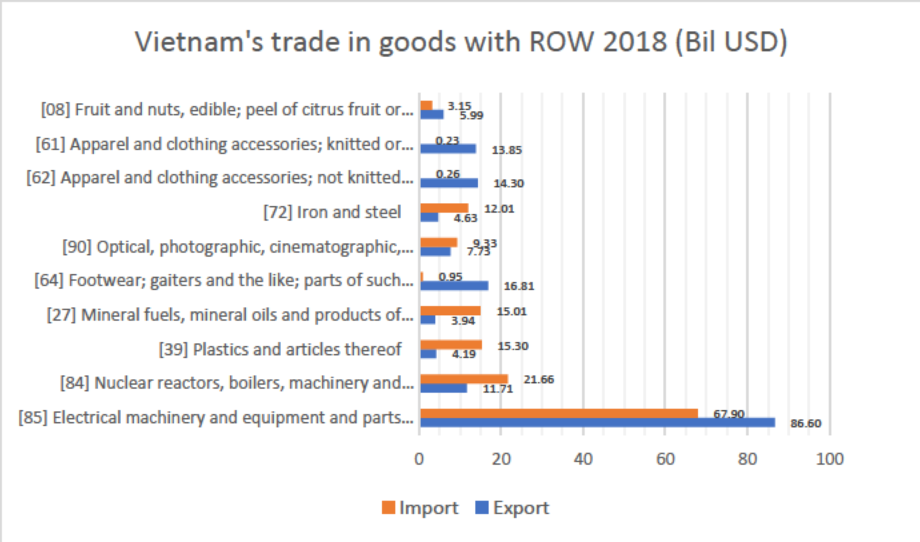

Philippines's trade in services with ROW 2018 (Bil USD)
Construction services
0.07
0.06
Maintenance and repair services n.i e.
0.14
0.08
Personal, cultural, and recreational services
0.27
0.15
Government services, n.i.e
0.52
0.02
Financial Services
0.55
0.28
Charges for the use of intellectual property, n.i.e
0.92
0.04
Insurance and pension services
1.54
0.08
Manufacturing services on physical inputs owned...
0.00
4.01
Telecommunications, computer, and information...
0.99
5.94
Transport
5.31
2.68
Travel
12.04
7.46
Other business services
4.63
16.65
0
5
10
15
20
Import
Export

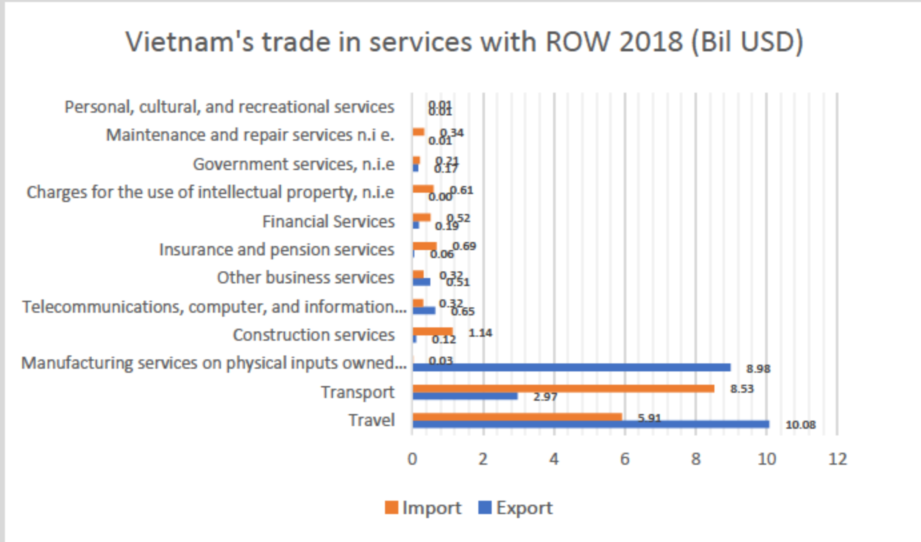

Singapore's trade in goods with ROW 2018 (Bil USD)
[33] Essential oils and resinoids; perfumery,...
4.48
8.37
[88] Aircraft, spacecraft and parts thereof
11.77
7.38
[29] Organic chemicals
6.94
16.89
[39] Plastics and articles thereof
8.73
15.96
[99] Other products
3.31
26.45
[90] Optical, photographic, cinematographic,...
12.11
19.25
[71] Natural, cultured pearls; precious, semi-...
20.40
17.01
[84] Nuclear reactors, boilers, machinery and...
53.10
58.78
[27] Mineral fuels, mineral oils and products of...
87.89
54.07
[85] Electrical machinery and equipment and parts...
101.71
128.82
0
50
100
150
Import
Export

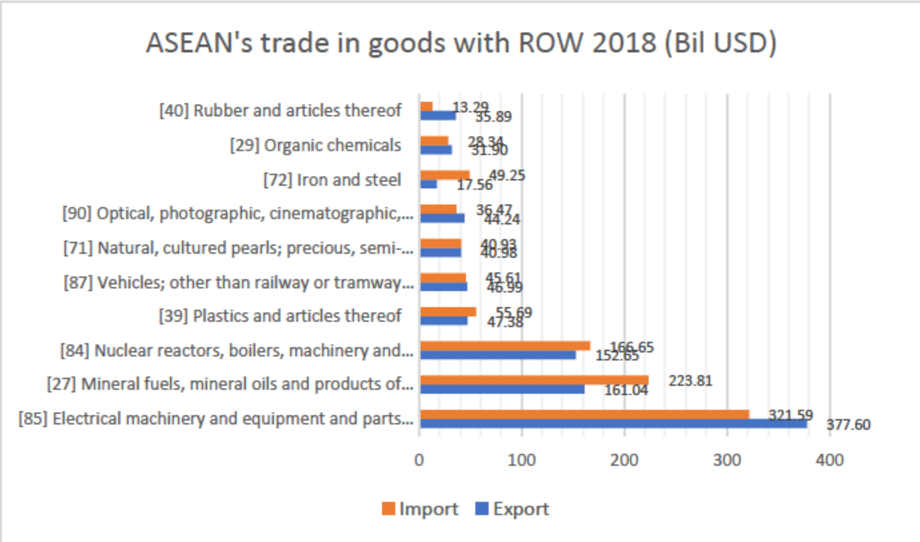

Singapore's trade in services with ROW 2018 (Bil USD)
Government services, n.i.e
0.23
0.31
Personal, cultural, and recreational services
0.46
0.53
Construction Services
0.42
0.75
Manufacturing services on physical inputs owned...
6.47
0.19
Maintenance and repair services n.i.e.
0.68
6.80
Insurance and pension services
4.49
5.33
Charges for the use of intellectual property, n.i.e
15.18
8.72
[Telecommunications, computer, and information...
15.30
13.20
Financial Services
6.55
27.11
Travel
25.34
20.41
Other business services
54.73
47.36
Transport
54.31
51.79
0
10
20
30
40
50
60
Import
Export

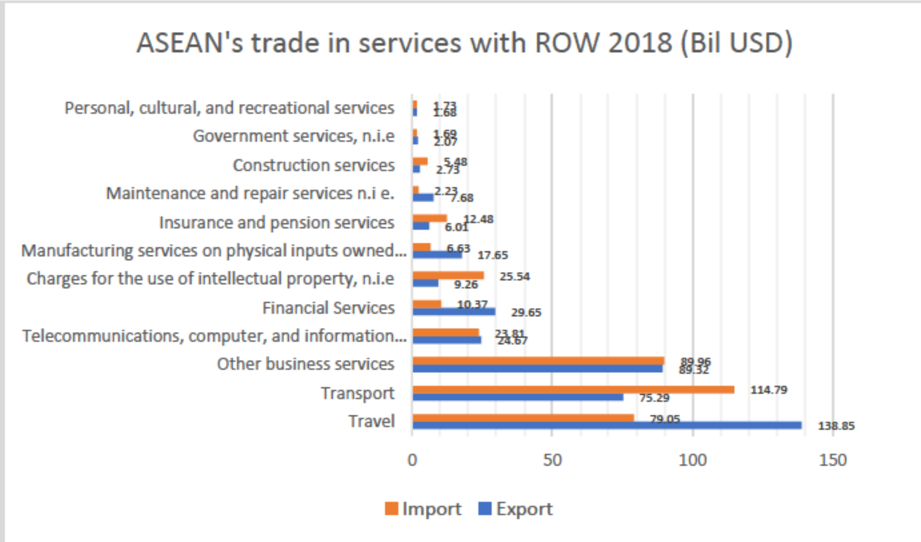

Thailand's trade in goods with ROW 2018 (Bil USD)
[90] Optical, photographic, cinematographic,...
4.61
5.37
[73] Iron or steel articles
5.80
4.57
[72] Iron and steel
9.56
1.53
[40] Rubber and articles thereof
2.07
14.97
[39] Plastics and articles thereof
7.30
14.01
[71] Natural, cultured pearls; precious, semi-...
11.69
11.62
[87] Vehicles; other than railway or tramway...
7.82
29.35
[27] Mineral fuels, mineral oils and products of...
32.80
10.08
[84] Nuclear reactors, boilers, machinery and...
22.82
41.47
[85] Electrical machinery and equipment and parts...
34.81
33.85
0
10
20
30
40
50
Import
Export


Thailand's trade in services with ROW 2018 (Bil USD)
Personal, cultural, and recreational services
0.04
0.09
Construction services
0.27
0.29
Government services, n.i.e
0.28
0.32
Telecommunications, computer, and information...
0.65
0.60
Financial Services
1.00
0.78
Insurance and pension services
2.30
0.12
Charges for the use of intellectual property, n.i.e
5.27
0.16
Other business services
14.08
11.04
Transport
18.93
7.69
Travel
12.35
60.23
0
20
40
60
Import
Export


Vietnam's trade in goods with ROW 2018 (Bil USD)
[08] Fruit and nuts, edible; peel of citrus fruit or...
[61] Apparel and clothing accessories; knitted or...
[62] Apparel and clothing accessories; not knitted...
[72] Iron and steel
[90] Optical, photographic, cinematographic,...
[64] Footwear; gaiters and the like; parts of such...
[27] Mineral fuels, mineral oils and products of...
[39] Plastics and articles thereof
[84] Nuclear reactors, boilers, machinery and...
[85] Electrical machinery and equipment and parts...
3.15
5.99
0.23
13.85
0.26
14.30
12.01
4.63
9.33
7.73
0.95
16.81
15.01
3.94
15.30
4.19
21.66
11.71
67.90
86.60
0
20
40
60
80
100
Import
Export


Vietnam's trade in services with ROW 2018 (Bil USD)
Personal, cultural, and recreational services
Maintenance and repair services n.i e.
Government services, n.i.e
Charges for the use of intellectual property, n.i.e
Financial Services
Insurance and pension services
Other business services
Telecommunications, computer, and information...
Construction services
Manufacturing services on physical inputs owned...
Transport
Travel
0.01
0.01
0.34
0.01
0.21
0.17
0.61
0.00
0.52
0.19
0.69
0.06
0.32
0.51
0.32
0.65
1.14
0.12
0.03
8.98
8.53
2.97
5.91
10.08
0
2
4
6
8
10
12
Import
Export


ASEAN's trade in goods with ROW 2018 (Bil USD)
[40] Rubber and articles thereof
[29] Organic chemicals
[72] Iron and steel
[90] Optical, photographic, cinematographic,...
[71] Natural, cultured pearls; precious, semi-...
[87] Vehicles; other than railway or tramway...
[39] Plastics and articles thereof
[84] Nuclear reactors, boilers, machinery and...
[27] Mineral fuels, mineral oils and products of...
[85] Electrical machinery and equipment and parts...
13.29
35.89
28.34
31.50
49.25
17.56
36.47
44.24
40.93
40.98
45.61
46.99
55.69
47.38
166.65
152.65
223.81
161.04
321.59
377.60
0
100
200
300
400
Import
Export


ASEAN's trade in services with ROW 2018 (Bil USD)
Personal, cultural, and recreational services
Government services, n.i.e
Construction services
Maintenance and repair services n.i e.
Insurance and pension services
Manufacturing services on physical inputs owned...
Charges for the use of intellectual property, n.i.e
Financial Services
Telecommunications, computer, and information...
Other business services
Transport
Travel
1.73
1.68
1.69
2.07
5.48
2.73
2.23
7.68
12.48
6.01
6.63
17.65
25.54
9.26
10.37
29.65
23.81
24.67
89.96
89.32
114.79
75.29
79.05
138.85
0
50
100
150
Import
Export

6.3.4.3 Corporate identities

According to Clarke (2007b), the features of corporate governance were contexture and vary by industry and activity and therefore adopting and practicing some governance elements from a particular system does not provide the expected outcomes in another and may impede one's own system. Clarke explained the role of particular characteristics of individual institutes or so-called corporate identities in shaping diverse forms of corporate governance around the world. This section of the research studies the nature of banking institute identities in the ASEAN banking system and draws implications based on Clarke's view.

The findings of the forms or specializations of banks in each of the ASEAN countries is based on the aggregated credit outstanding of each country categorized in different sectors. For example, the banking institute's specialization and identity are reflected through their credit portfolio such as a high concentration on agricultural loans, manufacturing industry loans, real-estate loans, construction lending, etc. The loan concentration in each portfolio represents the business priorities and specialization, while less concentrated credit classes are justified for the unspecialization or the unintended business activity and purpose.

The country's data are extracted from the individual country's central bank's publication and database and are compiled and calculated aggregately. For the purpose of the analysis, the latest data (2019) is preferred, however the latest data available from some databases is as of 2018. Therefore, where 2019 data is unavailable, it is substituted by 2018 data. Those data are presented in Table 6.19. The top three sectors that account for the majority of the share of outstanding credit are highlighted in blue to enable pattern analysis.

Table 6-19. Credit by sector in the ASEAN banking system[35]. Source: Data compiled from the country's central bank's publications and database.

<table>
<tr><th></th><th colspan="2">Brunei</th><th colspan="2">Cambodia</th><th colspan="2">Indonesia</th><th colspan="2">Malaysia</th><th colspan="2">Myanmar</th><th colspan="2">Philippines</th><th colspan="2">Singapore</th><th colspan="2">Thailand</th><th colspan="2">Vietnam</th><th colspan="2">ASEAN</th></tr>
<tr><td>Data source</td><td colspan="2">Brunei central bank (Financial Stability Report 2018)</td><td colspan="2">Cambodia central bank (Annual Supervision Report 2020)</td><td colspan="2">Indonesia central bank (Financial Stability Review 2019)</td><td colspan="2">Malaysia central bank (monthly statistic)</td><td colspan="2">Myanmar central bank (Financial statistics bulletin)</td><td colspan="2">Philippines central bank (Banking statistics-online statistical database)</td><td colspan="2">Singapore central bank (Statistics online-database)</td><td colspan="2">Thailand central bank (Financial institutions statistic database)</td><td colspan="2">Vietnam central bank (Banking indicator-Online database)</td><td colspan="2">Avg</td></tr>
<tr><td></td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td><td>2018</td><td>2019</td></tr>
<tr><td>Personal loan/financing[36]</td><td>28.1%</td><td>n/a</td><td>n/a</td><td>8.9%</td><td>-</td><td>-</td><td>n/a</td><td rowspan="2">58.1%</td><td>12.1%</td><td>n/a</td><td>10.7%</td><td>n/a</td><td rowspan="2">39.6%</td><td rowspan="2">38.0%</td><td rowspan="2">29.9%</td><td rowspan="2">31.1 %</td><td>-</td><td>-</td><td rowspan="2">32.7 %</td><td rowspan="2">36.9 %</td></tr>
<tr><td>Residential housing/mortgage</td><td>25.2%</td><td>n/a</td><td>n/a</td><td>11.4%</td><td>-</td><td>-</td><td>n/a</td><td>0.3%</td><td>n/a</td><td>17.7%</td><td>n/a</td><td>-</td><td>-</td></tr>
<tr><td>Agriculture, forestry and fishing</td><td>0.4%</td><td>n/a</td><td>n/a</td><td>7.3%</td><td>5.4%</td><td>6.5%</td><td>n/a</td><td>2.1%</td><td>14.5%</td><td>n/a</td><td>2.5%</td><td>n/a</td><td>0.5%</td><td>0 3%</td><td>0.7%</td><td>0.6%</td><td>9.3%</td><td>8.7%</td><td>4.7%</td><td>4.3%</td></tr>
<tr><td>Commercial property</td><td>8.5%</td><td>n/a</td><td>n/a</td><td>8.4%</td><td>-</td><td>-</td><td>n/a</td><td>6.7%</td><td>-</td><td>n/a</td><td>-</td><td>n/a</td><td>-</td><td>-</td><td>4.9%</td><td>5.0%</td><td>-</td><td>-</td><td>6.7%</td><td>6.7%</td></tr>
<tr><td>Construction</td><td>-</td><td>n/a</td><td>n/a</td><td>9.5%</td><td>8.0%</td><td>10.7%</td><td>n/a</td><td>5.3%</td><td>15.4%</td><td>n/a</td><td>3.3%</td><td>n/a</td><td>20.2%</td><td>20.6%</td><td>1.7%</td><td>1.7%</td><td>9.7%</td><td>9.9%</td><td>9.7%</td><td>9.6%</td></tr>
<tr><td>Electricity, gas and water supply</td><td>-</td><td>n/a</td><td>n/a</td><td>0.9%</td><td>1.3%</td><td>1.1%</td><td>n/a</td><td>0.8%</td><td>-</td><td>n/a</td><td>10.6%</td><td>n/a</td><td>-</td><td>-</td><td>4.7%</td><td>4.6%</td><td>-</td><td>-</td><td>5.5%</td><td>1.9%</td></tr>
<tr><td>Financial services (include interbank)</td><td>1.1%</td><td>n/a</td><td>n/a</td><td>4.7%</td><td>-</td><td>-</td><td>n/a</td><td>6.5%</td><td>1.8%</td><td>n/a</td><td>8.3%</td><td>n/a</td><td>14.7%</td><td>15.9%</td><td>20.2%</td><td>21.7 %</td><td>-</td><td>-</td><td>9.2%</td><td>12.2 %</td></tr>
<tr><td>Infrastructure</td><td>0.7%</td><td>n/a</td><td>n/a</td><td>-</td><td>-</td><td>-</td><td>n/a</td><td>-</td><td>-</td><td>n/a</td><td>-</td><td>n/a</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>0.7%</td><td>n/a</td></tr>
</table>

[35] The latest data (2019) was preferred, however some countries, such as Brunei, Myanmar, and the Philippines, are yet to publish 2019 data. Therefore, 2018 data is substituted.

[36] Data from Malaysia, Singapore and Thailand includes personal loans and residential housing loans in one category named "personal credit purpose".

Manufacturing industry	4.6%	n/a	n/a	4.4%	18.3%	16.8%	n/a	6.6%	11.2%	n/a	11.4%	n/a	3.8%	3.8%	14.8%	13.6 %	19.9%	19.3%	12.0 %	10.7 %
Mining and quarrying	-	n/a	n/a	0.2%	3.4%	3.0%	n/a	0.5%	-	n/a	0.6%	n/a	-	-	0.5%	0.5%	-	-	1.5%	1.1%
Commercial services	12.7%	n/a	n/a	3.6%	9.1%	8.3%	n/a	-	13.2%	n/a		n/a	1.4%	1.5%	3.2%	3.0%	-	-	7.9%	4.1%
Social services (admin, art, education, scientific, technical, health)	-	n/a	n/a	-	2.3%	2.2%	n/a	2.4%	-	n/a	2.4%	n/a	1.5%	1.3%			-	-	2.3%	2.2%
Telecommunication and information technology	0.2%	n/a	n/a	0.9%	-	-	n/a	-	-	n/a	3.3%	n/a	-	-	1.3%	1.2%	-	-	1.6%	1.1%
Tourism, hotel and restaurant	0.7%	n/a	n/a	4.4%	-	-	n/a	7.4%	-	n/a	1.7%	n/a	-	-	3.0%	2.5%	-	-	1.8%	4.8%
Trades	7.2%	n/a	n/a	26.4%	26.0%	25.7%	n/a	-	25.8%	n/a	13.1%	n/a	9.8%	10.1%	13.2%	12.5 %	21.8%	22.3%	16.7 %	19.4 %
Transportation and storage	10.6%	n/a	n/a	1.9%	5.3%	4.4%	n/a	2.3%	2.0%	n/a	3.0%	n/a	3.6%	3.6%	1.8%	1.9%	3.0%	2.7%	4.2%	2.8%
Others[37]	-	n/a	n/a	7.1%	20.8%	21.4%	n/a	1.4%	3.9%	n/a	11.5%	n/a	4.9%	4.9%	0.2%	0.2%	36.4%	37.1%	13.0 %	12.0 %
Total credit	100.0 %	n/a	n/a	100.0 %	100.0 %	100.0 %	n/a	100.0 %	100.0 %	n/a	100.0 %	n/a	100.0 %	100.0 %	100.0 %	100%	100.0 %	100.0 %	-	-

[37] Others includes loans that serve multi-purpose credit.

6.3.5 SUMMARY

The analysis of the data presented above was based on the methodology set out in chapter four. There were sufficient data and information to draw results from the findings. The information and data were from the Orbis database, the country's banking authority's databases, ASEAN secretariat's reports, ASEAN statistic databases, and civil society reports. All data and their sources were available and accessible without any issues. Numerical data were presented in table format. In the case of aggregated data on trades in products and services, numerical data were voluminous, therefore they were represented by bar-charts, whereas data on countries' credit by sector were presented in the form of a table to enable the identification of the top three sectors in each country.

Further discussion on this information and data relevant to corporate governance theories is given in the next chapter.

6.4 CONCLUSION

The above studies were conducted according to the designed research method, and as a result, the findings have provided fruitful explanations for the research questions. The patterns of bank governance practices across the ASEAN countries have been studied and identified. The level of compliance of the countries and regions with the BCBS's has been recorded. Furthermore, the governance attributes that are the most and least compliant have been identified. These findings are very informative and useful for the effort to increase banking framework cohesion across the ASEAN countries, specifically within the governance context. The findings of the first section indicate that the governance rules are diverse across the countries. There are only two common rules among the total of 56 criteria. In the case of shareholders' rights and key ownership functions, the patterns were common across the countries, however the findings indicated a lack of regulatory attention rather than a common governance framework.

In terms of a country's compliance with the BCBS's bank governance principles, the top three performers were Brunei (49/56) followed by Singapore and the Philippines, while Myanmar bottomed the list (11/56). On the overall basis, ASEAN complied with the BCBS's principles (266/504) with an average compliance rate of 53%. The aspect of shareholder's rights and ownership function had the most contraction, for example four of the countries completely failed to stipulate a single requirement to protect and enable the application of shareholder's rights and to establish the fair treatment of all bank shareholders, and across the region, the compliance rate on average was only 20% whereas all other governance principles/attributes scored above 50% compliance rate. All countries were most compliant with the governance attribute of the qualification and composition of the board, with a 68% compliance rate. This indicates there is a sufficient number of independent board members, nomination committees have been established and there is a clear and rigorous process for identifying, assessing and selecting board candidates.

The second section of the chapter explained the tendency of governance convergence based on information and data from numerous sources. These findings suggested a positive prospect for the future of an integrated bank governance framework. These findings provided justification for the discussion on the ASEAN banking integration framework, in respect to the cross-country macro-analysis. The study found that there were five factors that influenced a pro-convergence tendency, two factors suggested a divergence tendency and the other two had no effect on the governance convergence influence. The five forces were the presence of institutional investors, level of social democracy, degree of family capitalism, path dependent way to pursue different competitive advantages and corporate identities. The two forces that implicated divergent practices were shareholder protection through legal origin and the effectiveness of political stability. Meanwhile, the shift of shareholder classes and the influence of FDI inflows were found to have no impact.

These findings form a foundation for discussion in relation to research propositions in the discussion chapter that follows. Building on these finding, the next chapter validates the research propositions and discuss the policy implications and recommendations on the bank governance framework in the ASEAN. Also, it discusses the prospect and likelihood of the consensus adaptation of a single standard of governance framework in the banking industry.

CHAPTER 7 DISCUSSIONS

7.1 INTRODUCTION

The preceding chapter provides the findings of the research. This chapter discusses the information and data from the findings relevant to the theoretical viewpoints. The preceding sections start with the reiteration of the research objective and sub-questions. Then the solutions were provided through the validation of the propositions and discussions according to the information and data from the previous chapter.

The results of the findings suggest that bank governance rules differ from one country to another. There are 56 assessment criteria from six governance attributes. There are only two rules that are common in all the countries in the study. The level of a country's compliance with the BCBS's governance principles for banks varied. The top three most compliant countries are Brunei, Singapore, and Malaysia, respectively. The least compliant country is Myanmar accounting for only 20% of the overall compliance rate.

On the other hand, the study suggests that there is a tendency to accept the convergence of the bank governance rules across the ASEAN and that convergence to a single standard is possible. The findings are based on four premises, namely legal systems, political conditions, cultural traits, and economics. Nevertheless, to approach a single rulebook of bank governance, there are several factors that should be brought to the attention of regulatory bodies and the ASEAN ABIF working group, such as differences in legal systems and political conditions. The study also suggested that the most viable and optimal model for the ASEAN is the hybrid model of governance convergence. This model requires benchmarking from the international standard complimented with the features and conditions of the ASEAN identities.

This chapter concludes by providing answers to the main research question and summarizes the validity of all the research propositions.

7.2 BANK GOVERNANCE RULES IN THE ASEAN

The literature supported research proposition 1 as has been asserted by Chuanrommanee and Swierczek (2007) that *there is a multiplicity of bank governance rules across ASEAN countries*. The results of the findings confirmed proposition 1. The results indicated that there were gaps in the bank governance rules from one country to another. For instance, the horizontal analysis indicated that bank governance rules vary among all components of the six governance attributes and sub-attributes. Of the 56 rules, there were only two rules that are common in all countries.

For instance, even though the governance attribute of shareholder's rights and key ownership functions were found to share similar patterns across countries, almost all variables indicated a lack of legal requirements for the protection of shareholder's rights in their governance framework.It was found that all countries were depended heavily on the regulations enacted by the securities commissioners pertaining to shareholder's rights and protection. In addition to that, it was due to the absence of governance principle of shareholder's rights and protection in the BCBS's bank governance rulebook.

The findings on the attribute of the board of directors further highlighted the variance in governance across countries. There were four sub-attributes that added up to a total of 38 variables. There were only two cases of no country variance such as: the board should approve the selection of CEO and banks should establish a risk committee. These two factors are requirements stipulated in the BCBS's bank governance rulebook. Other variables indicated large gaps in countries' variances. Importantly, on the aspect of the chair of the board, the practices were different across countries. There were three countries that required the chair to be an independent director and five required that the chair should not be the same person as the CEO. However, this issue of duality of chairman and CEO is a heated debate in the literature that consensus is far from reaching (Bebchuk, L. and Fried (2004).

In respect to disclosure and transparency rules, the findings found that there was no single governance variable that had no variance between countries and that the rules were largely diverse. Brunei, Indonesia and Singapore utilized internet technology and required banks to update information promptly on their website, while six other countries failed to realize the importance of digital development.

7.3 LEVEL OF COMPLIANCE TO THE BCBS'S PRINCIPLES

As discussed in chapter four, proposition 2 stated that *the level of bank governance rules of ASEAN countries which comply with BCBS's principles vary from country to country*. The findings validated proposition 2. The assessment was conducted through the governance indices. The results show that bank governance rules are diverse and countries complied to different degrees to the BCBS's principles, ranging from the highest compliance rate of 88% to the lowest of 20%. The following paragraphs stated the level of country compliance from the most to the least compliant and provide explanations of the result of finding.

The country whose bank governance framework complied the most to the BCBS's standard was Brunei. It achieved a total accumulated score of 49 which translated to an 88% compliance rate with the BCBS's standard. One fact which contributed to its leading position was its recently updated bank governance guidelines in 2017 (Malaysia 2019, Philippines 2018, and the rest updated before 2017). Another factor was the absence of a capital market in the country, therefore Brunei does not have corporate governance guidelines for listed companies like its ASEAN counterparts. For instance, the bank governance framework in the rest of the ASEAN countries comprised general guidelines for listed corporations and special guidelines applying to banking institutes. For this reason, the comprehensiveness of Brunei's bank governance guidelines was crucial for the country's governance framework. The governance aspects with which Brunei fully complied were the overall responsibilities of the board, the qualification and composition of the board, and disclosure and transparency.

The second-best performer was Singapore which had an accumulate score of 41, accounting for a 73% compliance rate. The bank governance guidelines of the country were enforced on a comply-or-explain basis as for the case of Brunei (only used by these two countries whereas the others did not specify). Singapore was the best performer in respect to the rights of shareholders and the ownership function and fully complied with the compensation practices of the board. Noted that Singapore has the most developed financial sector comparing to the ASEAN peers. It banking supervisory arrangement is under the integrated model and the authority was among the first to develop its own bank corporate governance principles in 2005.

The country that followed was the Philippines which had a compliance rate of 64 The Philippines's bank governance guidelines included attentive provisions on the practices of the boards especially on the structure of the board. In terms of disclosure and transparency, the country scored below average, meaning there were loose requirements for banks to disclose information to stakeholders and the public. However, the banking regulations of the Philippines are among the most comprehensive and detailed regulations in the region.

Malaysia was in fourth position with a total accumulated score of 34, which translate to a compliance rate of 61%. The country's rules were most compliant in the provisions of the structure of the board with only one indecisive criterion of 13 criteria, which was the requirement to have a formal written conflict of interest policy but failed to mandate its procedure (objective compliance process for implementing the policy).

Indonesia was half compliant and half uncompliant with the BCBS's standard, being in fifth position with a score of 26, indicating a compliance rate of 50%. The widest disparity was found in relation to the attribute of shareholder's rights and ownership functions that abided to only one out of ten assessing criterial. The reason was that the bank governance regulations referred to the regulation issued by the securities commission for the matter shareholder's rights and protection. The country's bank governance regulation was last updated in 2006, which was the oldest policy among the ASEAN counterparts.

Cambodia came sixth in the ranking of BCBS compliance, scoring 24 points equal to 43% compliance rate. It performed the worst on the aspect of shareholder's rights and ownership functions and compensation practices scoring zero and one, respectively. This was due to the inactivity of equity market (only one bank is listed on the stock exchange) in the country that undermined the importance of shareholder's aspect of governance. The country's regulations emphasize the qualifications and composition of the board, for instance, it scored eight out of twelve assessment criteria. It underperformed in relation to other governance attributes and had a compliance rate below 50%.

Vietnam scored well below average with a score of 22 marks, which is a compliance rate of 39%. One of the reasons for this below average score, was due to the country's governance framework that was stipulated in the banking law *decree on the organization and operation of the commercial bank*, while there was no explicit policy or guideline on the arrangement of the governance policy framework. On the aspect of the board, the country attained an average score across each governance sub-attribute except for the board practices on compensation in which it scored zero. In terms of disclosure and transparency, Vietnam complied to only two out of eight assessment criteria.

The second poorest performer was Thailand, with a score of 21 and a compliance rate of 38%. The reason for low scoring was due to its outdated 2009 legal notice on bank governance. For instance, country's framework was reluctant in terms of shareholder's rights and ownership function, while all the other governance attributes were below average in relation to the compliance rate, except for compensation practices of the board which were 75% compliant with the indices.

The least compliant country was Myanmar. The country's bank governance framework was the same as Vietnam which stipulated governance arrangement in its banking law. It complied to only 20% of the BCBS's standard with the poorest performance on disclosure and transparency (zero mark). The country's poor governance framework can be explained by its recent economic transformation. Myanmar was in the midst of political and economic transition toward a democratic and market-oriented economy (GIZ 2018). Before privatization in 1990, Myanmar was a monopolistic nationalized one-tier banking system where a 100 percent of banking assets were completely state-owned. In other words, its banking rules and regulations were the youngest of the ASEAN countries.

7.4 CONVERGENCE THEORIES OF BANK GOVERNANCE

The third research objective was to provide information on the prospect of the single standard on bank governance in the ASEAN based on corporate governance convergence theories from the literature, particularly whether it was possible to converge to a single governance standard. The objective was achieved through the study of the ASEAN bank governance convergence tendency hence providing an answer to the research question *of what do theories suggest as to the likelihood of convergence toward an ASEAN single standard of bank governance?* Based on the literature review, there were nine factors identified within four premises that influenced the governance convergence tendency. One proposition was developed for each factor (P3.1 to P3.9). The following sub-sections reinstated the propositions and explained the validity of each, keeping in mind that as discussed in the previous section, bank governance rules were diverse across ASEAN countries. They were accompanied by a discussion of relevant theoretical implications on the ASEAN governance convergence tendency, shedding light on the research objective to seek an answer as to whether it is possible to converge to a single governance standard. The summary section provided an overall explanation of the possibility of governance convergence.

7.4.1 LEGAL AND OWNERSHIP STRUCTURE

7.4.1.1 Legal systems [38] (investor protections)

Proposition 3.1 stated that *the heterogenous ASEAN bank governance rules suggest that legal systems across ASEAN countries vary*. The results of the findings confirmed the proposition. Legal systems are diverse across ASEAN countries. For instance, the review of legal-system origins found that there were five countries with a common-law system and four countries that practiced a civil-law system. The legal systems of all countries were not distinctively common-law or civil-law based. There were factors such as historical events, traditional customs, and religion that influenced the systems. In all cases, the country's legal system of colonized past was influenced by the system of occupiers. Also, there were four countries that practiced Muslim laws, namely Brunei, Indonesia, Malaysia, and Singapore. Customary laws were also found to influence the legal system in Brunei, Indonesia, Malaysia, and Myanmar. It is also worth mentioning that although Vietnam is a socialist country, its legal system was predominately influenced by French civil law. Therefore, legal systems were diverse, especially with the influence of customary laws and religious laws. Based on the theory that a country with a common law system provides stronger shareholder protections, this led to the finding that the level of a shareholder's legal protection varied across ASEAN countries, where countries such as Brunei, Malaysia, Myanmar, Philippines, and Singapore had a better legal framework to protect the interests of shareholder over their ASEAN counterparts.

The theory conjectured those different legal origins equated to different levels of shareholder's legal protections, thus there were diverse governance rules. The discussion above explains the diversity of the legal origins in ASEAN countries. Therefore, they suggested that an ASEAN legal-system factor was a potential force in the separation of governance rules.

[38] *Legal system reviews is based on the University of Melbourne's (open source) Southeast Asia Legal Research Guide: Regional and Comparative Resources (2020) and the JuriGlobe dataset of the University of Ottawa's Alphabetically Index of the 192 United Nations Member States and Corresponding legal system (JuriGlobe 2020).*

7.4.1.2 Institutional investors

Proposition 3.2 stated that *the heterogenous ASEAN bank governance rules suggest that is a relatively low number of banks within ASEAN are ultimately owned (50.01%) by institutional investors*. The results of the study provided a contradictory explanation from the proposition. Under the condition of the diverse bank governance rules of the ASEAN, a relatively large number of banking institutes were owned and ultimately owned by institutional investors. For instance, the data indicated that there was a total of 2,830 banks in ASEAN countries and the percentage of ASEAN banking institutes that were owned by institutional investors was 21.70%, compared to 4.15%, 1.41% and 2.86% in the U.S., Australia, and Euro area, respectively. Also, 16.57% of ASEAN banks were ultimately owned by institutional investors, while the percentage was 3.44%, 1.24%, and 2.15% in the U.S., Australia, and Euro area, respectively. The comparative data indicated that the ASEAN banking institutes were largely owned and ultimately owned by institutional investors, and they suggested this resulted in influence in terms of the decision-making mechanism on the practices and structure of governance.

Based on theory, the presence of institutional investors tended to push toward a standardized structure in every aspect of governance. As previously mentioned, the study found that the ultimate ownership of banking institutes by institutional investors was relatively high (16.57%), while more than 83% of institutes were dominated by minor shareholders. This suggests that the state of the current institutional investor in the banking sector was a positive force in the merging of ASEAN governance rules.

7.4.1.3 Changes of shareholder classes

Proposition 3.3 stated that *the heterogenous ASEAN bank governance rules suggest that there has been a relatively large increase in the number of controlling shareholders within ASEAN over the last 10-year period*. However, the result of the findings suggested otherwise, in particular, there was a decline in the number of controlling shareholders in banking institutes. This phenomenon could be a little tricky to understand. For instance, there was an increase of 3% in controlling shareholders from 411 to 422 in ASEAN countries over the last decade (2010 to 2020) compared to 0.03%, 0.07% and 0.06% in the United States, Australia, and Euro Area, respectively. The largest comparative growth rate of ASEAN (3%) demonstrates a large increase in the number of controlling shareholders in the region. However, the growth in the number of controlling shareholders alone was not sufficient to justify the phenomenon as the number of institutes was not the same over time, and the growth in the number of newly established banking institutes during the same period of time must be taken into consideration. For instance, the number of banking institutes increased from 2,683 to 2,830 (5% increase) over the same period. These data suggest that the proportion of controlling shareholders was 15.32% in 2010 and 14.91% in 2020, which on the other hand represents a decline in the number of controlling shareholders in banking institutes of the ASEAN. The data shows there was a slight decrease in the number of controlling shareholders (0.41%) which theoretically favored the spread of shareholder classes, however the change was insignificant when taking into account the period of ten years. Hence, it is fair to say that the pervasive shareholder class phenomenon was not the case for ASEAN countries. One factor that could explain the sluggish progress toward the pervasive shareholder class was due to the underdeveloped capital markets in countries such as Brunei, Cambodia, and Myanmar.

Theory suggested that pervasive shareholder classes or the decline of controlling shareholders were positive forces of governance convergence (Hansmann & Kraakman 2001). For instance, they represented the shift toward protectionism of minority and non-controlling shareholders that summoned the single standard of Western-based governance (Hansmann & Kraakman 2001). However, the study found that pervasive shareholder classes or the decline of controlling shareholders were not concurrent and were insignificant to the current state of ownership of ASEAN banks. Therefore, the findings suggest that the change of shareholder class was improbable to influence the convergence of the governance of the ASEAN.

7.4.2 POLITICAL IDEOLOGIES AND INTERESTS

7.4.2.1 Social democracy

Proposition 3.4 stated that *the heterogenous ASEAN bank governance rules suggest that there are different levels of social democracy (in the ASEAN banking context) across countries.* The results of the findings reject the proposition. The study found that the levels of social democracy in the context of the banking industry were similar from one country to another. This is in line with the tenet of the stakeholder theory which views that “a corporation is a socially responsible institution that should be managed in the interests of the stakeholders”. For instance, the ASEAN countries had similar structures of democratic mechanisms and advocacy bodies designed particularly to resolve issues in the banking industry. For instance, it was found that advocacy bodies were equivalently set up across countries, which allowed players (banking institutes) to raise their voice in relation to policy advocacy within the banking regulatory frameworks through the establishment of banking associations and which are operated under their charters. These associations had the authority to represent the whole industry to discuss and bargain with regulators and relevant stakeholders. In particular, at the regional and global level, the ASEAN Bankers Association played a vital role in strengthening the voice of ASEAN in policy advocacy efforts and especially in coordinating the banking frameworks within the ASEAN countries that implicitly contributed to converging the ASEAN banking framework. In addition to this, there were similar frameworks to reinforce banking consumer protection through the enactments of consumer protection laws and the establishments of consumer advocacy groups, noting there were only two countries that lacked consumer advocacy associations (Cambodia and Philippines). Consumer protection laws and consumer advocacy groups were another influential mechanism to democratize the industry as they enabled the bargaining element to ensure fairness between businesses and consumers in a sustainable manner.

Based on theory of social democracy, similar features of democratic arrangement suggested the converging force of the governance system. The study also found that the state of social democracy in the context of the banking industry was not a stranger from one country to another. They shared similar structures of democratic mechanisms and advocacy bodies and thus approximated to a similar level of social democracy. Therefore, social democracy within the context of banking was regarded as a positive force to the integration of governance rules.

7.4.2.2 Political stability

Proposition 3.5 stated that *the heterogenous ASEAN bank governance rules suggest that there are different degrees of political stability effectiveness across countries.* The results of the study agree. Data on the 10-year trend of the World Governance Indicator of the World Bank database indicated different levels of the condition of political stability across ASEAN nations. For example, Singapore and Brunei were regarded as the most stable countries (98.6% and 91.9% world percentile rank 2018, respectively) in the region, while Myanmar, Philippines and Thailand were the least stable countries (10.5%, 12.9% and 19.5% world percentile rank 2018, respectively) with recent changes of their governments that sparked numerous examples of social unrest. Also, Cambodia had more than three decades under the rule of the same political party, hence its political stability was indexed at an average position (51.4% world percentile rank 2018) compared to its ASEAN counterparts. The single communist party of the Socialist

Republic of Vietnam monopolized the government power that, in turn, influenced the governance structure in the private sector in its own unique way. Overall, the conditions of political stability in ASEAN countries varied and therefore validated the proposition.

Theoretically, various levels of political stability suggest the tendency towards divergent governance rules across countries. The evidence shows that political conditions largely varied from country to country. Uncontrollable events and social turmoil such as rioting, strike, civil war, unrest, political chaos, and unstable government played a vital role in shaping governance systems. Therefore, different conditions of political stability influenced diverse governance approaches.

7.4.3 CULTURAL TRAITS

7.4.3.1 Family capitalism

Proposition 3.6 stated that the *heterogenous ASEAN bank governance rules suggest that a relatively large number of banking institutes within ASEAN are ultimately owned (50.01%) by an individual or a family*. The results of the study found an opposing phenomenon, therefore the proposition is rejected. There was a relatively small number of banking institutes that were ultimately owned by an individual/family. For example, throughout the ASEAN countries, 39 banking institutions, which equals 1.38% of all banks, were owned by individual/family with the control rights. Comparatively, family capitalism in the banking industry was 0.55%, 0.26%, and 0.44% in the United States, Australia, and Euro Area, respectively. Even though the concentration was relatively higher in the ASEAN region, the number was still insignificant. It is noted in previous studies, such as LaPorta, Lopes-de-silanes and Shleifer (1999) and Keong (2002) that the concentration of family capitalism was relatively higher, however their subjects of study were general-purpose corporations. On the other hand, banking institutes were intensively regulated especially in relation to the aspect of family and individual ownership due to the shared risks and interests with numerous stakeholders.

Based on theory, the state of family capitalism with a relatively large number of institutes owned by individual/family suggests the diverse governance phenomenon. However, despite the existence of family capitalism in the banking industry in the ASEAN, and despite the data being relatively higher compared to other countries and regions, the concentration of family capitalism was considerably too low (1.38%) to have a significant effect and especially given the restricted ownership in the industry. Therefore, it was impractical that family capitalism had any influence on the governance system.

7.4.4 ECONOMY AND INSTITUTIONAL FACTORS

7.4.4.1 Influence of FDIs

Proposition 3.7 stated that *the heterogenous ASEAN bank governance rules suggest that a relatively low number of banks within ASEAN are ultimately owned (50.01%) by foreigners (combined) through direct or total participation*. The study found contradictory evidence and thus the proposition is rejected. The share of FDIs in the banking industry was relatively higher compared to other countries and regions. For example, the data indicated that 13.75% of bank were owned by foreign shareholders while 7.07% of the total banking share were controlled by foreign shareholders. It is noted that across the ASEAN, only in Brunei that foreign ownership in the banking sector was completely restricted due to national laws. In the United States, Australia, and Euro Area the controlling shareholders in the banking industry were much less at 0.20%, 0.46%, and 0.97%, respectively.

The above theory made the case that a relatively higher degree of FDIs supported the governance convergency phenomenon. Foreign shareholders controlled a 7.07% share of the ASEAN banking market, which was relatively higher compared to other countries. However, it is not necessarily equated to the governance convergence phenomenon that the theory would suggest. The number of foreign-owned banks indicate that foreigners exert insignificant influence on less than 10% of the whole banking sector. The remaining 93% were locally controlled which implies conservative governance approaches. This, in turn, opposes the case of a tendency toward the convergence of governance rules and suggests an insignificant influence by the FDIs on a country's governance structure.

7.4.4.2 Institutional approaches and competitive advantages

Proposition 3.8 stated that the *heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in competitive advantage across countries*. The results of the findings opposed the claim of the proposition. The ASEAN countries pursued similar competitive advantages in terms of aggregated sectoral data on trades in products and services and hence had a high degree of homogeneity in competitive advantage. For instance, the data indicates that in five ASEAN countries, electrical machinery, equipment and parts were the most traded goods in terms of economic value, followed by commodities such as mineral fuels, mineral oils and products of their distillation that represent the highest trade value in three countries (Brunei, Indonesia and Myanmar). Cambodia specialized in producing and exporting apparel and clothing accessories, where its garment sector accounted for the highest trade value. In terms of trade in services, travel-related services were found to have the highest trade value in seven countries, except Myanmar and Singapore. The second-most traded goods were transport-related services that represented the highest trade value in Myanmar and Singapore. Data indicates a similar pattern of sectoral competitive edges in terms of trade value in products and services. Data led to the findings that firms and countries in the ASEAN pursue competitive strategies in the same sectors. Therefore, it could be assumed that the countries employ similar institutional approaches to achieve the same economic goals and therefore provide an opposing explanation to the proposition.

Theoretically, when there is a case of similar competitive advantage, firms and countries also employ similar institutional approaches that ultimately influence the convergence of governance rules. Therefore, the conclusion from the findings suggests that the shared competitive advantage across ASEAN countries prompts governance rules to converge.

7.4.4.3 Corporate identities

Proposition 3.9 stated that *the heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in banking institutes' identities across countries*. The study found otherwise. There was a high degree of homogeneity in the banking industry through the study of asset composition, particularly loan portfolios of the banking sector in each country. Data indicates that aggregate loan portfolios of individual countries were concentrated in personal credit purposes, including housing and mortgage, which ranged from the lowest of 12.4% (Myanmar) to the highest of 53.5% (Brunei) in 2018. On an overall basis, it accounted for an average of almost 33% of total outstanding loans in 2018 in the whole ASEAN. The second-most concentrated credit was for trading purposes including domestic and international trades, which was the lead sector in four countries and accounted for an average of nearly 20% in 2019 throughout the ASEAN banking system.

Meanwhile, credit in the construction sector was among the top three credit classes in five countries and the second-most concentrated in Myanmar and Singapore. Another highly concentrated sector was credit for the manufacturing industry, which was the second-most borrowed in Indonesia and Vietnam and third in the Philippines. Notably, credit for financial services was the second and third most borrowed in Thailand and Singapore, respectively, and accounted for an average of above 12% across the ASEAN. It is worth mentioning that less developed countries had lent notable amounts of total credit share to the agricultural sector such as in Cambodia (7.3%), Myanmar (14.5%), and Vietnam (8.7%).

Based on these data, banking institutes across ASEAN countries focused on similar credit sectors and similar operational activities and thus share similar corporate identities. Personal credit was the main driver of the banking business while credit for trade purposes came next. The findings also suggest that the component of the credit sector within a banking system is determined by the stage of country development. For example, there is high credit concentration in the agricultural sector in Cambodia, Myanmar, and Vietnam, while there is high concentration in the financial services of more advanced economies such as Singapore, Thailand, and Malaysia.

The theory suggests that the institute's shared identities prompt the merging of governance rules across jurisdictions. As previously explained, the study provides evidence that the conduct of banking businesses shares similar contexts, activities, and identities across ASEAN countries. Therefore, the case of shared corporate identities is a positive force on the convergence of governance rules.

7.4.5 SUMMARY

The above discussions show that there are different implications for the tendency toward the convergence of the bank governance framework in the context of the ASEAN banking sector. Several factors support the convergence views and some showed contradictions. Table 7.1 summarizes the implications from the above discussions in which four forces support the convergence tendency, two support the divergence tendency, and the other three were found to have no effect on governance convergence.

The four forces that support governance convergence are the presence of institutional investors, the degree of social democracy, the path dependent way of governance and corporate identity. For instance, institutional investors tended to demand the standardized structure and practices of governance, while similar patterns of social democracy provided shared infrastructures toward a standard framework. Likewise, the patterns of banking asset composition, particularly loan portfolios across the countries, implicated similar asset allocations and operational activities which suggest that there is a trend towards a similar governance structure. The shared competitive advantages that influenced the path of governance further support a push toward similar approaches to bank governance.

On the other hand, the legal systems are distinctive across borders. The legal origins are culturally and historically defined and cannot be altered or influenced to favor governance convergence. However, it is not a definitive factor in the diversity of governance. For instance, the theory suggested that different legal systems resulted in different level of shareholder legal protections. For this reason, the regulatory efforts should focus on strengthening the regulatory shareholder protections by adding requirements that are found to have major gaps across countries. These requirements are not specific to any of the legal system, rather they can apply to any of the legal systems whether common law, civil law, or a mixed legal system. For instance, shareholders should be allowed to discuss company matters with each other. Also, all shareholders should have the right to vote and they can cast their vote in absentia and electronically, which means they are treated equally.

Also, another factor that contradicts the convergence tendency is the conditions of political stability. The theory suggests that the political stability condition defined by uncontrollable events and social turmoil results in a different governance structure. Uncontrollable events and social turmoil were potentially affected more by the governance structure in public organizations and governmental agents. The impacts on bank governance can be minimized through the line of separation between the tie and the independence of banking authorities with general public policies. To achieve this separation, regulations (except banking laws) that rule the banking sector are independently formulated and enforced by banking regulators with minimal intervention from public institutions or government bodies.

Overall, based on the discussions above, the study found that it was likely that bank governance rules were converging and also the convergence toward a single standard was possible. There were no significant factors that would undermine or prevent the convergence efforts. Even though there were two factors that suggested barriers to convergence, they were not definitive factors. The above justifications suggest that regulatory attention could resolve the issues. Table 7.1 (next page) summarizes the discussions.

Table 7-1. Summary of the bank governance convergence tendency findings.

Suggest tendency toward homogeneous governance system	Suggest tendency toward heterogeneous governance system	Suggest no effect
Presence of institutional investors - 16.57% ultimately owned by institutional investors, compared to 3.44%, 1.24%, and 2.15% in the U.S., Australia, and Euro area, respectively, suggests positive force of governance convergence	The level of investor protections varied – diverse legal origins, complicated with additional Muslim and customary laws, suggests diverse governance structure.	Very slight shift in favor of emerging shareholder class – less than one percent (corresponding to increased number of banks) over the period of 10 years, suggests no influence from minor shareholders on governance.
Similar degree of social democracy in the banking context through banking associations, consumer advocacy groups, and consumer protection laws, suggests governance convergence	Levels of political stability were highly distinctive across all countries, suggests tendency toward diverse governance rules.	Low influence through (inflowed) FDIs. 7.07% of foreign ultimate owners in ASEAN banking market, suggests insignificant influence on governance.
Path dependent way - similar patterns of sectoral competitive advantage in term of trade value in products and services, suggests tendency toward standard governance rules		The degree of family-capitalism in ASEAN banking system is very low (each country below 1.5%, and average of 1.38%), thus suggests no influence on governance.
Corporate identities -banking institutes composed of similar loan portfolios and product specialization and thus shared similar identities, suggests tendency toward governance convergence.		

7.5 PROSPECT OF ASEAN BANK GOVERNANCE

The fourth and last objective of the research was to provide recommendations on the prospect of the ASEAN's bank governance standard. The aim was to provide direction as to whether ASEAN countries should converge on the previous patterns toward Western-based international guidelines, particularly the BCBS's governance principles for banks, or to diverge to their own design that best responds to ASEAN's identity. This objective was achieved by answering the question of *what is the most suitable model for ASEAN bank governance?* Previous studies provided the notion that there was no one-size-fit-all model for optimal corporate governance outcomes. The debates consisted of three options: whether to converge wholly to a single model, to adopt a hybrid model (combining the best and second-best models) or to develop one's own system. Based on previous ASEAN research, the study developed the proposition 4 that *the regional ASEAN bank governance framework should shift toward its own system design.* The study found some suggestions that were otherwise to the proposition. For instance, the findings provided evidence to support the view that the standard of ASEAN bank governance should shift toward the hybrid model that combines the BCBS's governance principles for banks with some of their own features.

First, within the premise of the legal and ownership structure, the legal structure of ASEAN countries was to some degree not as mature as those of the developed Western countries. For instance, the less developed ASEAN countries were found to lack fundamental legal provisions to enforce relevant rules on investors and corporations, the reason for which could be traced back to its stage of economics and financial marker development. This was manifested in not only less developed ASEAN but the regional low compliance rate of shareholder's protections. Also, the change of shareholder classes across ASEAN countries was found to differ from the structure of the West. Pervasive shareholder concentration was not the case for ASEAN. Therefore, the value of rules applied in the West which emphasized minor shareholders were irrelevant to ASEAN where minority shareholders are as not as pervasive. In the premise of politics, the state of political stability further separated the ASEAN systems from the West. The fundamental democratic features (voting rights, freedom of speech, information dissemination) in countries such as Brunei, Cambodia, Laos, Thailand, and Vietnam were either subdue or the existence is in question. Furthermore, within the economic premise, there were distinctive characteristics of the flow of capital. While the advanced economies experienced capital outflows through foreign investments, the emerging ASEAN countries tended to be recipients of this capital. Therefore, an influence of capital funders on the board and organization tended to exist in ASEAN, while this phenomenon was not the case in Western countries.

Also, the possibility of converging wholly to a single model was almost out of the parameters due to the different phases of financial sector development across countries. The application of a single model required the presumption that the condition of the market was on a level playing field and all countries were at the same developmental stage. However, as discussed in an earlier chapter, the conditions of ASEAN financial markets varied from country to country. Some such as Singapore, Malaysia, Indonesia, and Thailand were more developed in both capital and banking markets, while others were in the stage of developing their banking sector and organizing the implementation of their capital market. The depth and development stage were diverse characteristics of ASEAN financial markets.

Another factor that explains the preference for the hybrid model was the sentimental attachment to the principle of national sovereignty and individual preference toward unity (Sukma 2014). The adoption to the full degree of a certain international standard was inevitably seen as a threat that could undermine national sovereignty and more importantly, ASEAN's value. Policymakers and working groups, especially those with a nationalistic ideology, would deliberately reject the proposal to adapt any standard at a certain degree.

In addition, a factor that would further distinguish the ASEAN system from the West was the weakness of the financial stability infrastructure in the region. The regional financial safety net was a pre-condition for the ABIF to prevent unforeseeable financial crisis. Two major initiatives had been established to bridge the gap: ASEAN+3 Macroeconomic Research Office (AMRO) and the Chiang Mai Initiative Multilateralization (CMIM). The AMRO had periodically published regional surveillance reports and engaged with national authorities at macro-economic levels while the CMIM's fund was yet to receive a real commitment from ASEAN members and its Plus Three counterparts (China, Japan and South Korea) together with the Hong Kong Monetary Authority. Nevertheless, a number of bodies and frameworks of the regional financial safety net were still absent, such as a regional crisis management protocol, regional payment and settlement system, supranational agency that had the power to exercise cross-border prosecutions, etc. This condition resulted in a different risk profile between the ASEAN and the European Union in a sense that the European banking community had higher risk-absorbing capacity in an event of financial or economic shock.

In spite of these differences between the ASEAN and the West, there were shared values that explained the importance of the standardized rules. Anywhere in the world, bank is a financial intermediary that performs a function of funds matching from those of surplus to those of shortage and provided settlement facilities to those in the economic system. Their core business services are deposit taking, loan issuance, and payment services. Having explained in chapter three the different models of banking business, the main risk factors remain somewhat indifferent from one to another. In addition, the essence and the primary objective of good bank governance was set to provide a safeguard for stakeholders' interest in conformity with public interest on a sustainable basis. Effective governance also ensures the proper functioning of the banking sector and the economy as a whole. These shared values provide a justification for the practical application of a standard governance framework and a platform to perceive the importance of the standard rules. The benchmarking of these rules can lead to increased harmonization and cohesion, not just at the cross-border level but toward a global standard.

All things considered, the ASEAN hybrid model of governance convergence was the most viable and optimal option for ASEAN, this being the conventional BCBS's governance principles for banks with added features that correspond to ASEAN identities. The current frameworks in some countries served as a half-built bridge in this direction, especially the bank governance framework that recently received regulatory updates such as in Brunei. Some countries' rules were long due for an updated version, such as Indonesia, Singapore, and Vietnam. The country's bank governance rules should be stipulated in respect to its core banking laws while expressing the conjunction to the BCBS's governance principles for banks. The strong commitment to and value of integration should be regarded as a priority in relation to the consolidated efforts in filling the regulatory gaps between countries.

7.6 CONCLUSION

The above discussions provide explanations on the results of the study and answered all the research sub-questions. The discussion on the main research question was addressed based on answers to the sub-questions. The main research question was *is it possible for ASEAN countries' banking frameworks to converge toward a single standard of bank governance? What recommendations can be made to achieve increased coherency in ASEAN bank governance rules?* As answered in the above section, it is possible that the current rules of ASEAN banks governance to converge toward a single standard of bank governance rules. The study provided a few recommendations. First and foremost, ASEAN should be mindful of the differences in the legal systems across the countries. Even though governance rules tended to act as guidelines in some countries and regulations in others, some of their provisions are linked to company law or civil/criminal code. For example, in the case for disobedience and the abuse of rules by the directors of the board which involved a monetary penalty and imprisonment. Another instance is management and employee malpractice that resulted in similar sanctions. Regulatory attention should also be focused on political stability. Its implications for the convergence of governance rules are as important as the legal factor. At large, political will and enthusiasm to bring about a more integrated regional cooperation would spur the convergence process and filling the regulatory gaps, while the lack of political stability would stagnate the convergence process and the whole banking integration. In particular, the line of separation between the tie and the independence of banking authorities with general public policies should be carefully drawn. Nevertheless, the most viable and optimal choice for the convergence of governance rules was the hybrid model that combined the international best standard with ASEAN's own features. It is noted that ASEAN should come to terms on their shared identities and future values as stipulated in the ASEAN charter for the successful integration of the banking community.

Table 7.2 recapitulates all the propositions and the results of the findings to the research questions. There are 12 propositions, five were found to be true and seven were in contradiction with the theories.

Table 7-2. Summary of research propositions and results of study.

Research questions	Proposition	Results of study
Q1: *What are the present rules of governance in ASEAN banks* and *what are the commonalities and dissimilarities?*	P 1: There is a multiplicity of bank governance rules across the ASEAN countries.	True
Q2: *To what extent do the governance rules of each ASEAN country comply with BCBS's principles?*	P 2: The level of bank governance rules of ASEAN countries which comply with BCBS's principles vary from country to country.	True
Q3: *What do the theories suggest as to the likelihood of the convergence toward ASEAN single-standard bank governance?*	P 3.1: The heterogenous ASEAN bank governance rules suggest that legal systems across ASEAN countries vary.	True
	P 3.2: The heterogenous ASEAN bank governance rules suggest that is a relatively low number of banks within ASEAN are ultimately owned (50.01%) by institutional investors.	False
	P 3.3: The heterogenous ASEAN bank governance rules suggest that there has been a relatively large increase in the number of controlling shareholders within ASEAN over the last 10-year period.	False
	P 3.4: The heterogenous ASEAN bank governance rules suggest that there are different levels of social democracy (in the ASEAN banking context) across countries.	False
	P 3.5: The heterogenous ASEAN bank governance rules suggest that there are different degrees of political stability effectiveness across countries.	True
	P 3.6: The heterogenous ASEAN bank governance rules suggest that a relatively large number of banking institutes within ASEAN are ultimately owned (50.01%) by an individual or a family.	False
	P 3.7: The heterogenous ASEAN bank governance rules suggest that a relatively low number of banks within ASEAN are ultimately owned (50.01%) by foreigners (combined) through direct or total participation.	False
	P 3.8: The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in competitive advantage across countries.	False
	P 3.9: The heterogenous ASEAN bank governance rules suggest there is a low degree of homogeneity in banking institutes' identities across countries.	False
Q4: *What is the most suitable model for ASEAN bank governance based on convergence theories?*	P 4: The regional ASEAN bank governance framework should shift toward its own system design.	True

CHAPTER 8 CONCLUSION

8.1 INTRODUCTION

This is the last chapter of the thesis. It provides a summary of the previous chapters and explains how the research objectives were met. It briefly overviews the study, the usefulness of the indices methodology, and points out the main findings from the study. These follow by the theoretical implication section that explains how this study was built over the existing knowledge in the literature regarding the convergence of corporate governance. After this, the practical implications and policy recommendations to the ASEAN banking integration working groups, banking supervisory authorities and stakeholders that are seeking efforts in tighten regulatory gaps are discussed. Then, the limitations of the study are detailed, follow by suggestions for future research directions. The chapter finishes with the conclusion.

8.2 CONCLUSIONS OF THE STUDY

The ASEAN nations had set solid goals to achieve an integrated banking system within the region. There were numerous benefits of the integrated banking system to the economic developments at both national and regional levels. For instance, in terms of the macro-economic value, integration was seen as the main driver toward freer capital mobility across regional borders that would lower transactional costs, justify manipulative costs of capital, and spur FDIs and investment projects. At the same time, the progress of the integration would cautiously factor into consideration the implicit macro-economic risks such as contagious risks (common lender effect and wake-up call effect), spill-over effects and manipulation of the free-flow of capital mobility. In terms of regulatory barriers, a number of factors were identified as being persistent to the banking system integration such as the country's regulatory framework differences, reluctance toward deeper institutionalization and a lack of a regional financial stability net.

Of these three factors, the gaps in the regulatory framework, specifically the bank governance rules and guidelines, fall into the interest of this study. Based on the Basel Committee of Banking Supervision's principles for bank governance, which is the conventional corporate governance guidelines for banks around the world and served as the basis and consulting instrument, the study developed bank governance indices consisting of 56 evaluation criteria. The indices were used to identify the differences in the governance frameworks across countries and to assess the country's compliance rate with BCBS's governance principles.

The use of the indices methodology adopted from (LaPorta, Silanes & Shleifer 1998) and (Chuanrommanee & Swierczek 2007) allowed the study to achieve its objectives in identifying the in the level of governance rules and assessing the countries' compliance rate to a specific standard. In particular, this method was very useful for a comparative study of governance rules, not just cross-countries but also applicable to cross-industries or companies through the analysis of scoring patterns. The indices also enabled the application of a scoring and measuring system for assessment purposes. The results were very useful in terms of a country's compliance rate and governance attribute that was most/least complied with across countries. There were criticims of the indices methodology (Braendle 2006; Spamann 2009) over the home bias perspective (U.S. centric) that treated the U.S.'s Sarbanes Oxley Act and U.S.'s relevance laws as norms. This could have been recurring if this study was used as the home standard or governance standard from any advanced ASEAN economics to use as a basis. To avoid the issue, the study developed indices based on a universally accpeted governance standard (BCBS's principles) that was not regarded as biased toward any system. The study suggested that the credibility of the indices methodology heavily relied on the origin of the indices elements.

There are a number of ways to measure and analyse the data and information of the indices. The study used the Guttman scalogram and univariate analysis method due to the nature of the data. The coefficient reprocubility of Goodenough-Edwards (Abdi 2010; McIver & Carmines 2011) provided statistical validation to the Guttman scalogram of the study. The univariate analysis provided adequate descriptive statistics to interpret the data. The Guttman scalogram and univariate analysis were suitable to be employed together for the purpose of assessing governance indices.

The indices assessment had found that bank governance rules were diverse across the countries. Of the 56 criteria, there were only two rules that were common in all the studied countries, namely that the board should approve the selection of CEO and banks should establish a risk committee. The governance framework arrangements were different from one country to another. For instance, the governance rules were based in the banking laws in Myanmar and Vietnam; regulations as for the case of Cambodia, Indonesia, Malaysia, and Philippines; guidelines as in Brunei and Singapore; and notifications as in Thailand. Moreover, the governance rules in Brunei, Indonesia and Malaysia were extended to Syariah laws that applied to Islamic banks, whereas this framework did not exist in the other ASEAN counterparts.

The study also found that the level of a country's compliance to the BCBS's governance principles was not the same, ranging from the highest of 88% to the lowest of 20% compliance rates. The country that had the highest compliance rate was Brunei, which had a total assessment score of 49 representing an 88% compliance rate. An explanation of its position was its recently updated bank governance guidelines in the year 2017 (Malaysia 2019, Philippines 2018, the rest were updated before 2017). Also, the absence of a capital market in Brunei implied that the country did not have corporate governance guidelines for the listed company as in its ASEAN counterparts. Hence, the comprehensiveness of Brunei's bank governance guidelines was crucial for the country's financial sector development. After Brunei, the second most compliant country was Singapore which scored 41, equals a 73% compliance rate. Its bank governance rule explicitly stated the enforcement tactic was based on the "comply or explain" basis as for the case of Brunei (whereas other countries were not specified). The Philippines was in the third position, scoring 36 which equals a 64% compliance rate. The countries that followed were Malaysia (scoring 34 equaling a 61% compliance rate), Indonesia (scoring 26 equaling a 50% compliance rate), Cambodia (scoring 24 equaling a 43% compliance rate), Vietnam (scoring 22 equaling a 39% compliance rate) and Thailand (scoring 21 equaling a 38% compliance rate). The least compliant country was Myanmar, scoring 11 equaling a 20% compliance rate. The factors that explain its poor compliance rate was that Myanmar's bank governance rules were stipulated in the banking law (the same as for the case of Vietnam). There was no stand-alone governance regulation or guideline as in the other ASEAN counterparts. Also, its recent economic transformation toward privatization was another factor. The country was in the midst of politic and economy transition toward a democratic and market-oriented economy. Before 1990, Myanmar was a monopolistic nationalized one-tier banking system where all of its banking assets were owned by the state, therefore its private banking regulations emerged only after 1990.

After identifying various levels in bank governance differences in the ASEAN, the next step was to study the convergence implications from theories in the literature. The results of the study suggested that there was tendency to converge in the bank governance rules across the ASEAN and the prospect of developing a single standard was possible. Information and data indicated that the forces that supported the convergence of bank governance were the degree of social democracy, the presence of institutional investors, path dependent way of governance and corporate identity. Meanwhile, factors that disfavored governance convergence were differences in the legal systems and condition of political stabilities. However, these were not definitive factors that suppressed the convergence of bank governance. The increased awareness and attention by the regulators and stakeholders would overcome these factors. On the other hand, three factors were found to have no influence, such as the changes of shareholder classes, the influence through inflows in FDIs and the state of family capitalism in the ASEAN banking sector.

Lastly, the study suggested that the most viable and optimal model for the ASEAN single bank governance model was the hybrid model. It required benchmarking from the international standard, namely the BCBS's governance principles for banks with the compliment of the features and conditions of the ASEAN's system.

8.3 CONTRIBUTIONS AND SIGNIFICANCE OF THE STUDY

8.3.1 Implications of the Theory

The results of the study provided a number of implications on governance convergence theories in the literature. Nine convergence theories were extracted from the literature. The study found evidence that affirm two theories and disavow the rest. Noted that theories from the literature were drawn from the studies of general-purpose and profit-seeking corporations, whereas this study focused on the banking sector in particular and especially based on information and data about ASEAN countries that comprise different levels of economic and financial market development. Therefore, contradictions to this study do not necessary challenge the implications of the original theories. In lieu, it contributed to the governance convergence theories in the banking sector of ASEAN. The following paragraphs recapitulate the theories formed by the study with relevance to their origins.

First, this study suggested that the variety of legal origins results in the diversity of governance rules, which is in line with previous research. According to LaPorta, Silanes and Shleifer (1998), different levels of shareholder legal protections (resulting from different legal origins) across borders suggested diverge governance rules.

Second, this study suggested that the presence of institutional investors did not influence governance convergence. This was in contradiction to O'Sullivan (2000) study that suggested the presence of institutional investors imposed an influence on governance convergence.

Third, this study found that pervasive shareholder classes are not the case in the ASEAN banking sector and hence, had no effect on governance convergence. A previous study by Hansmann and Kraakman (2001) asserted that the shift toward emerging shareholder classes (wide share ownership) promoted uniformity of governance standard.

Fourth, this study suggested that various degrees of social democracy did not influence governance convergence. Conversely, Roe (2003) suggested that the convergence of corporate governance is not likely due to various levels of social democracy across borders.

Fifth, the study suggested that the different conditions of political stability prevented the convergence of governance rules. Likewise, the previous study by Roe (2003) suggested the same, that uncontrollable events and social turmoil (such as rioting, strike, civil war, unrest, political chaos, and unstable government) played an important role in influencing governance systems and thus resulted in diverse governance practices.

Sixth, the study suggested that family capitalism in ASEAN banks is a rare phenomenon (1.38% of institutes are controlled by individuals or family) and the degree of family capitalism did not affect governance convergence. In opposite, a previous study by Keong (2002) suggested that concentrated family-owned institutes prevented the convergence of corporate governance.

Seventh, the study found that the FDI inflows did not pressure governance practice toward any standard due to the low level of foreign-owned shares in the banking sector. Guillen (2000) found the opposite result in his study. He asserted that patterns of corporate governance continued to differ remarkably across borders, partly due to influences imposed by the FDIs to adopt a particular governance system.

Eighth, the study found that the pursuance of similar competitive advantages did not influence the convergence of governance rules. This was opposite to Bebchuk, Lucian and Roe (1999) views who asserted that a path-dependent phenomenon in which companies pursue different competitive strategies prevented governance convergence.

Last, the study suggested that the focus on similar credit sectors and similar operational activities (thus sharing similar corporate identities) did not affect governance convergence. In a previous study, Clarke (2007b) suggested that the variety of corporate identity of the institutions prevented governance convergence.

A summary of the theories accompanied by explanations is provided in Table 8.1.

Table 8-1. Literature theoretical contributions.

Premises	Variables	Literature theories	Results of study	Explanation
Legal and ownership structure influences	Level of investors protections	The various levels of legal systems across countries suggest diverse governance rules. (LaPorta, Silanes & Shleifer 1998)[39]	Agree with literature theory	ASEAN countries had a variety of legal systems and their bank governance frameworks were diverse.
	Presence of institutional investors	The presence of institutional investors imposes pressures on governance convergence. (O'Sullivan 2000)	Disagree with literature theory The presence of institutional investors did not affect bank governance convergence.	The degree of institutional investors was relatively high in ASEAN, yet their bank governance frameworks were diverse.
	Shift in favor of emerging shareholder class (widely held ownership)	The shift of interest groups in favor of the emerging shareholder class increases the uniformity of governance rules. (Hansmann & Kraakman 2001)	Disagree with literature theory Pervasive shareholder classes did not affect bank governance convergence.	Pervasive shareholder classes were not a phenomenon existing in the ASEAN banking sector, hence there was no effect on bank governance framework.
Political ideologies and interests	Degree of social democracy	The degree of variance in social democracy across countries prevents corporate governance convergence. (Roe 2003)	Disagree with literature theory The variety degree of social democracy across countries did not affect bank governance convergence.	ASEAN banking sector had similar social democracy mechanisms, yet their bank governance frameworks were diverse.
	Effectiveness of political stability	The variance in the conditions of political stability prevent the uniformity of corporate governance. (Roe 2003)	Agree with literature theory	The conditions of political stability in the ASEAN were distinctive, and their bank governance frameworks were not uniform.
Cultural traits	The degree of family-capitalism	Concentration of family-owned corporations prevent the convergence of corporate governance. (Keong 2002)	Disagree with literature theory The concentrated family-owned corporations did not affect bank governance convergence.	The degree of family capitalism in the ASEAN banking system was very low (average 1.38%), hence there was no effect on the bank governance framework.

[39] LaPorta, Silanes and Shleifer (1998) focused on the origin of legal systems. They classified these into English common law origin and French, German, or Scandinavian civil law origins. The data of this study is based on JuriGlobe which classifies legal systems into civil law, common law, Muslim law, and customary law.

Economy and institutional factors	Influence of (Inflowed) FDIs	The increase of global foreign direct investments and portfolios suggested governance convergence. (Guillen 2000)	<u>Disagree with literature theory</u> The increased FDI inflows did not affect bank governance convergence.	There was low FDI inflows (7.07% of foreign ultimate owners), hence no effect on the bank governance framework.
	Path dependent way	The path dependent phenomenon to pursue different competitive strategies prevented governance convergence. (Bebchuk, Lucian & Roe 1999)	<u>Disagree with literature theory</u> Path dependent phenomenon did not affect bank governance convergence.	The ASEAN countries shared similar competitive strategies in the banking sector, yet their bank governance frameworks were diverse.
	Corporate identities	The variety of corporate identity of the institutions prevented governance convergence. (Clarke 2007b)	<u>Disagree with literature theory</u> The variety of corporate identities did not affect bank governance convergence.	Corporate identities were similar in the context of the banking sector, yet their bank governance frameworks were diverse.

8.3.2 Policy contributions

The suggestions from the study are beneficial to the ASEAN banking integration workgroup, bank supervisory authorities, and banking institutes. The study informed the ASEAN banking integration workgroup in regard to the common and different rules of ASEAN governance frameworks. For instance, the study collated data/information on the governance rules across the ASEAN countries which identified the common and different patterns of governance rules. The common rules could be benchmarked in the efforts of regulatory harmonization toward the aim of achieving a more coherence framework within the region. It also provided a basis to identify loopholes in the governance regulatory framework and hence move toward a more effective framework.

The results from the vertical analysis (individual country's compliance rate) provided insight into the bank supervisory authorities, especially in less developed economies such as CLMV (Cambodia, Laos, Myanmar, and Vietnam) in regard to the level of a stringent bank governance framework in their countries. This information enabled them to locate their position against countries in the economic community and to have a better understanding of the need to foster their regulatory governance framework. Most important of all, the study informed the decision-making bodies of a broader view of the current, evolvement and future direction of governance frameworks within the ASEAN community which may potentially lead to better decision making.

In particular to convergence analysis, the research informed and provided insights into the efforts to bridge the gaps in bank governance frameworks. First of all, the differences in the legal systems across the ASEAN countries influenced the integration process and hence the regulators should pay attention to each individual country's structure. There were two main reasons to emphasize a country's legal system. First, despite governance rules which tended to be enacted by independent regulators of the banking industry, some of the provisions necessitated legal procedures of the civil or common law. Second, the differences in the legal origins implied separate paths of governance rules and hence were potentially the source of gaps in the regulatory framework. Another suggestion was in relation to the political conditions. The different degrees in political stability influenced the integration toward a diverge path. Its implication on the convergence of governance rules was as important as the legal factor. Political will and enthusiasm to bring about a more integrated regional cooperation could spur the convergence process and fill the regulatory gaps, while the lack of political stability could stagnate the convergence process and the whole banking integration. Lastly, the suggestion for the most viable and optimal choice for the convergence of governance rules was the hybrid model which combined the international best standard with ASEAN's own features. It is noteworthy that ASEAN should come to terms (internally agree) and increase its efforts to realize the shared identity and values of the single banking community.

8.4 COMPLETION OF THE STUDY

The main goal of this research was "to contribute to the gap in theory and provide recommendations by assessing the value of corporate governance convergence theories to achieving increased coherency in the ASEAN bank governance frameworks and to impart the value of bank governance single-standard in the ASEAN banking system". To achieve this goal, four research objectives were established and four sub-questions have been addressed and discussed in chapters six and seven.

The first research objective was achieved by constructing bank governance indices to assess the similarity and differences in bank governance across ASEAN countries. The assessment pointed out the results of diverse governance rules from one country to another. The second research objective was answered by the further analysis on the governance indices to rank countries from the most compliant to the least compliant with the BCBS's bank governance standard. The third research objective was answered through the study of various factors pointed by governance convergence theories in the literature. The results suggested that governance convergence was possible. Four factors (presence of institutional investors, degree of social democracy, path dependent way, and corporate identity) supported the convergence tendency; two factors (legal origins and effectiveness of political stability) contradicted the convergence tendency and the other three (inflow of FDIs, pervasive shareholder classes, and degree of family capitalism) had no or little influence. The last study objective was realized through the recommendations provided on the prospect of the single standard of ASEAN bank governance. The result suggested that the most viable and optimal option was to converge toward the hybrid model that combined the best international standard with features and conditions of the ASEAN countries. Overall, all research objectives were met.

8.5 LIMITATIONS OF THE STUDY

There were several challenges and limitations in particular stages of the study. Some of these were listed and described in the introductory chapter. In terms of methodology, there were three main challenges to the study.

The main limitation of the study was the lack of statistical methods used, hence the results were not statistically significant and could not be generalized to a wider population (governance rules and practices in other regions). This was due to the specificity of the topic, research questions and the nature of the data. The occasion that statistical analysis was used was to interpret the indices scores and was not intended to generalize the data. It involved univariate data analysis through descriptive statistics, scatterplots, bell-shape curves, and box-charts. In response to this challenge, the results of the study, implications and recommendations were specific to the context of bank governance in ASEAN.

Another limitation was that in the study of legal instruments, some documents contained ambiguous clauses that were not explained in the footnotes or the appendix. This was common in cases where governance rules were stipulated in the form of guidelines rather than laws or regulations. To avoid misinterpretation, these ambiguous cases were treated as errors in the indices scoring process. Fortunately, the number of errors was low and the level of coefficient reproducibility of the Guttman scale validated the scalogram of the indices.

8.6 FUTURE RESEARCH DIRECTIONS

One of the daunting issues that emerged during the study and particular to this research topic was how to suggest a standardized uniform governance framework and rules among ASEAN countries that were applicable to both members of developed and less-developed financial markets without compromising the standard of the more-developed markets. However, this idea emerged after the policies review phase and closer toward the end of the study therefore it was impossible to incorporate this issue into the research objectives or question. The study resolved this issue by looking into the history of ASEAN, specifically the previous actions that ASEAN used to implement various strategic decisions. The economic community had a tradition of maintaining certain standards across the region and allowing countries that lagged behind to set commitments[40] through their own timelines and circumstances. In this context, the study provided recommendations to adopt the hybrid model of bank governance which referred to the combination of the international standard with the ASEAN consensus rules (reflecting member countries' circumstances).

Nevertheless, this could provide a foundation for future researchers who aim to resolve and assess the value of a single governance standard for ASEAN banks. Future research could investigate more deeply the characteristics of the suggested hybrid model of bank governance. For instance, investigators might look into certain attributes of BCBS's corporate governance principles for banks that are applicable to ASEAN or attributes that require adjustment to the ASEAN's situation, for example, the rules pertaining to shareholder's protections given shareholder classes are not as pervasive as other countries. Therefore, to protect the small percentage of minor shareholders as well as encouraging working-class investors (which are essential for the development of the ASEAN financial market) the design of the legal framework must not focus only on the concentration of current shareholder spectrum, rather, the framework should ensure that there are just and equal treatments across all shareholder classes even they are yet to exist. For instance, the guidelines shall ensure that information dissemination to minor shareholders is adequate and in timely manner, equal voting rights, appropriate voting infrastructure for minor shareholders, etc. Another case to consider is the level of financial literacy of stakeholders. For example, the literacy rate was between 60 percent to 95 percent across the ASEAN countries, whereas in developed markets, the literacy rate were between 80 percent to 100 percent (Roser & Ospina 2018). The difference suggested that the adjustment of the ASEAN framework should comprise elements focusing on financial inclusiveness and enhancing financial education to stakeholders.

[40] Protocol to implement the packages (currently at 8th package) of commitments on financial services under the ASEAN framework agreement on services.

8.7 CONCLUSION

It is worth mentioning that the study's recommendations did not emerge from the researcher's interest or subjective judgement, rather they developed over the course of the study. These recommendations were found to be in line with recommendations from other ASEAN studies. For example, Vutha (2014) agreed that ASEAN was divided and significant gaps were found in income differences, economic structure, investment frameworks, infrastructure conditions, and numerous human development dimensions especially between the more advanced ASEAN six (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) countries and the CLMV. Some of these issues could be resolved by incentivizing ASEAN banks to consider a broader marker based (go-region strategy) and to establish ASEAN import-export banks that would promote intra-regional trades (Kanithasen, Jivakanont & Boonnuch 2011). These would be insufficient if the arrangements were at bilateral levels or a group of more advanced economies while other states were left behind (Kanithasen, Jivakanont & Boonnuch 2011). For these reasons, they emphasized the importance of regulatory framework harmonization in the banking sector of ASEAN countries, one among numerous banking rules were the consensus on a single-standard bank governance standard.

While the ultimate aim of ASEAN was to bring about an integrated economic community and single financial market, there were some challenging issues that are yet to be resolved. For instance, Menon (2014) asserted that one of the challenges of the economics integration was the lack of frameworks that resort to contagion risks and the inexistence of safety net infrastructures. These were prerequisite factors to ASEAN economic integration and were fundamental to the ABIF. These challenges could not be dealt with by any single country or group of countries but required ASEAN commitment and action. As pointed out by Thanh (2012), issues that carried sizable weight had to espouse into the AEC blueprint and establishing practical action plans that could make it a reality.

To conclude, this study attempted to resolve the issue of a country's regulatory framework differences by investigating specifically bank governance frameworks of ASEAN countries. The results of the study were cultivated during different phases, among them there were four main findings. First, the bank governance framework and rules were diverse across countries. Second, countries complied at various levels to the BCBS's principles for bank governance. Third, data and information within the premises of legal origins, culture traits, political conditions, and economic and institutional factors suggested that converging toward a single standard of bank governance was possible. Lastly, the study suggested that the most viable and optimal model was the hybrid model that combined international best standards with ASEAN's rules.

Also, the study led to some recommendations on the converge efforts. First, policy makers and ASEAN working groups should be mindful of the differences of legal systems across jurisdictions. Second, various condition of political stabilities implicated a tendency on a diverse governance path, therefore policy makers should commit and show political will toward the convergence efforts. Third, political will and enthusiasm to bring about a more integrated regional cooperation would spur the convergence process and fill the regulatory gaps, which are achievable when ASEAN comes to terms with their shared identities and future value based on the mandate. The environment that stimulates political will was based on mutual trust and goodwill (Somjai & Moussa 2016). Through this, each member country should be open and free from discrimination and prejudice (Somjai & Moussa 2016). Another important aspect was the political ambitions and capacities in incorporating the idea of ASEAN integration into domestic laws, regulations, and master plans (Kanithasen, Jivakanont & Boonnuch 2011). This would allow room for flexibility and adaptation of distinct local rules toward a regional single-standard rule. The integration of the banking sector specifically, and the cooperation among ASEAN countries at large therefore strongly relied on the appropriation for each country's domestic political condition that would, at the end of the day, lead to a shared common value.

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APPENDIX A:

Legislation impacting on the EU banking and financial sectors

1977	*First Banking Directive*. Removed obstacles to the provision of services and establishment of branches across the borders of EU member states. Harmonized rules for bank licensing. Established EU-wide supervisory arrangements
1988	*Basle Capital Adequacy Regulation* (*Basle I*). Minimum capital adequacy requirements for banks (8% ratio). Capital definitions: Tier 1 (equity); Tier 2 (near-equity). Risk-weightings based on credit risk for bank business
1988	*Directive on Liberalization of Capital Flows*. Free cross-border capital flows, with safeguards for countries with balance of payments problems
1989	*Second Banking Directive*. Single EU banking licence. Principles of home country control (home regulators have ultimate supervisory authority for the foreign activity of their banks) and mutual recognition (EU bank regulators recognise equivalence of their regulations). Passed in conjunction with the Own Funds and Solvency Directives, incorporating capital adequacy requirements similar to Basle I into EU law
1992	*Large Exposures Directive*. Banks should not commit more than 25% of their own funds to a single investment. Total resources allocated to a single investment should not exceed 800% of own funds
1993	*Investment Services Directive*. Legislative framework for investment firms and securities markets, providing for a single passport for investment services
1994	*Directive on Deposit Guarantee Schemes*. Minimum guaranteed investor protection in the event of bank failure
1999	*Financial Services Action Plan* (*FSAP*). Legislative framework for the Single Market in financial services
2000	*Consolidated Banking Directive*. Consolidation of previous banking regulation
2000	*Directive on e-money*. Access by non-credit institutions to the business of e-money issuance. Harmonised rules/standards relating to payments by mobile telephone, transport cards, and Basle payment facilities
2001	*Directive on the Reorganisation and Winding-Up of Credit Institutions*. Recognition throughout EU of reorganisation measures/winding-up proceedings by the home state of an EU credit institution
2001	*Regulation on the European Company Statute*. Standard rules for company formation throughout the EU
2002	*Financial Conglomerates Directive*. Supervision framework for a group of financial entities engaged in cross-sectoral activities (banking, insurance, securities)
2004	*New EU Takeover Directive*. Common framework for cross-border takeover bids
2005–2010	*White paper on Financial Services Policy*. Plan to implement outstanding FSAP measures, consolidation/convergence of financial services regulation and supervision
2006–2008	*Capital Requirements Directive*. Updates Basle I and incorporates the measures suggest in the *International Convergence of Capital Measurement and Capital Standards* (Basle II). Improved consistency of international capital regulations. Improved risk-sensitivity of regulatory capital. Promotion of improved risk-management practices among international banks

Source: ECB (2005b, Table 2) and authors' updates.