“Do as the Romans do in Rome”?

A “pragmatic” corporate governance perspective beyond ethical relativism in Asian Emerging Economies

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Abstract:

When doing business in the emerging Asian markets, one cannot escape the feeling that ethical norms and values are not “valued” or that there no obvious incentives to comply to the rules of the game. Ethical values are often violated and corruption is prevalent in these emerging economies. However, since the debilitating Asian crisis of 1997-2001, governance structures have been dramatically improved throughout Asia, by adhering to “best” international corporate governance practices to start with. Despite the considerable improvements, Asian companies are still lacking behind in terms of transparency, accountability to all its shareholders and being responsible to affected stakeholders.

When dealing with Asian executives, high ethical values is not being perceived as an immediate priority, nor does opaqueness of Asian firms and the prevalence of insiders help to protect minority shareholders either in family or state owned enterprises. We are convinced that one only convinces Asian entrepreneurs, owners and executives that violations of ethical values and good corporate governance principles will damage the reputation and trust in the firm, increase its overall risk that will likely undermine the possibility to tap into more global forces or locally compete with the best. The purpose of corporate governance is to safeguard the promises made by firms to investors and other relevant stakeholders which could be described as “to optimize sustainable organizational value” which implies appropriate ethical behavior, even in those fast growing Asian emerging economies.

Keywords: *Best Corporate Governance Practices and Integrity in Asia, Corruption and Reputation Risk in Asia, generic principles of Accountability and Responsibility*

When doing business in Asia, one cannot escape the feeling that ethical norms and values are not "valued" that highly nor exist there obvious incentives to behave ethically in the fierce competitive Asian emerging markets. One could even question the ethical sensitivity to ethical values as they are often violated. Moreover, corruption is prevalent in the Asian emerging markets as surveys consistently reveal. However, since the debilitating Asian crisis of 1997-2001, governance structures have been dramatically improved throughout Asia. Despite the considerable improvements, Asian companies are still lacking behind in terms of transparency, accountability to all its shareholders and being responsible to affected stakeholders. This is mainly because insiders in family or state owned enterprises still rule most of the biggest Asian companies. Moreover, when ethical business principles are propagated in Asia, these theoretical ethical concepts originate more often than not from Western philosophy. Is it surprising that a Chinese culture might prefer to adhere to Confucian, Mencius or Lao Tse's principles, or that Indonesians or Indians are likely more familiar with the ancient epics of Ramayana and Mahabharata, narratives of good and evil? In business, however, allegedly attempting to apply ethical principles – be it teleological, deontological or consequentialist in nature – have largely remained a mere public relations exercise to convince others about their presumed good ethical intentions. The reality on the ground is often quite different: powerful business elite in 'tacit' or even explicit collaboration with the politicians and public officials rule vast business empires. This political elite uses the "*rule by law*" instead of making sure their business "associates" abide by the *rule of law*. Relationship building is a survival mechanism in those emerging Asian markets where one faces enormous institutional voids. Unfortunately, those relationships can easily turn into nepotistic and corrupt networks. Most business executives will therefore adapt the adage to "*do as the Romans do in Rome*" to survive in such uncertain and fierce environments where one cannot fully rely on contractual enforcement or arm's length governance structures.

When dealing with Asian executives, I cannot escape the impression that ethical values are not an immediate priority for businesses, nor does opaqueness of Asian firms and the prevalence of insiders help to protect minority shareholders. Asian entrepreneurs and executives can only be convinced about the importance of ethical values when it can be shown that violating some "generic principles of good corporate governance" – which implies good ethical behavior – will damage the trust in the firm, increase its reputational risk that will likely undermine the possibility to tap into more global forces. The purpose of corporate governance that encompasses ethical principles is to safeguard the promises made

by firms to investors and other relevant stakeholders which could be described as "to optimize sustainable organizational value".

In a first paragraph we will highlight why rules-based corporate governance structures are not always applicable or even irrelevant in an Asian context. Similarly, the mainly Western inspired ethical principles as they are promulgated in Business Ethics courses in many international Business Schools may be interesting to many [Asian] executives but hardly followed in a business context where building relationships with powerful political elite is an easier venue to accomplish financial performance. In a second paragraph we will attempt to indicate how to overcome these hazards and institutional voids, while not falling into the trap of ethical relativism. We will suggest a more philosophically *pragmatic* approach that relies on generic "universal" (to be distinguished from absolute) principles of good corporate governance principles that need to be contextualized to a local content, and urge not to "force" ethics through surveillance and sanctioning systems but make people aware of the importance of integrity in any long lasting business relationship and focus on the organizational biases that can lead to unethical behavior.

Why bother about Good Corporate Governance and Ethical Values in an Emerging Economy?

Is ethics in crisis in Southeast Asia, China and elsewhere? Are the corporate governance structures underneath in these emerging markets still in disarray, or does individual integrity in business not outweigh the benefits from unpunished corrupt or hazardous behavior?

Corporate governance in the Asian Emerging Economies

Executives make decisions on a daily basis that are supposed to serve the organization. However, quite often those decisions may better themselves at the expense of other parties related to the firm: those costs are known as *agency costs* which find its roots in the separation of ownership and top management. A system of check and balances – the basis of corporate governance – is assumed to lessen those agency costs by controlling and monitoring top management (Friedman, 1970; Fama & Jensen, 1983; Jensen & Meckling 1976, Jensen, 1986; Lorsch, 2004; Macey, 2011). This prevailing Anglo-Saxon outsider model of corporate governance as practiced in the USA, UK, Canada and Australia is characterized by a high reliance on equity finance, dispersed ownership, strong legal

protection of shareholders (including minority stockholders) under a common law system, strong bankruptcy regulations and courts, little rile for creditors, employees and other stakeholders in management, and strong requirements for disclosure and high level of management discretion in mergers and acquisitions. This American-English model of corporate governance has been mainstream because of New York's and London's status of predominant international capital markets which lead to the belief of an alleged 'global consensus' that corporate managers should act exclusively in the economic interests of shareholders. One assumed for instance that by granting limited equity ownership [or stock options] to professional managers, one could reduce the agency problem since the managers would now be assumed to think alike owners and align their interests with the main shareholders of the firm. Moreover, this *outsider corporate governance model* that has dominated international finance is based on the belief that the creation of liberal markets will facilitate the allocation of scarce resources in the most effective and efficient manner that consequently will lead to optimal economic outcomes. Mainstream corporate governance claims that a majority of independent board members will not only reduce agency costs but also improve the overall performance of the firm (Bown & Caylor, 2006; Cairnes, 2003; Dimma, 2002; Fama & Jensen, 1983; Gordon, 2007; Jensen & Meckling, 1976; Klein, 1998; Larcker *et al*, 2011; Lev, 2012). International "Western" capital and investment have logically followed this paradigm and shown the undeniable tendency for global mobile capital to locate itself in countries and firms that have efficient corporate governance systems. The recent global financial crisis (2008-2009) has definitely undermined this alleged superior outsider corporate governance model (Roubini, 2011; Rajan, 2011; Shiller, 2012).

The "insider" model on the other hand so characteristic to German, French, Scandinavian and Japanese corporate governance has, indeed, gained some prominence since the financial mortgage debacle in the USA. This insider model is family-oriented or state-owned with long term focus that also emphasizes the community. Such an *insider corporate governance model* is usually characterized by a high reliance on bank finance, concentrated ownership, relatively weak protection of minority shareholders under a civic law system, a more predominant role of particular stakeholders in the ownership and management (creditors and employees in the German case), relatively weak disclosure requirements and more limited freedom in mergers and acquisitions. In this loosely defined "European Continental" environment and in Japan, the Agency Theory that is closely associated with the Shareholder Model is complemented or even "overruled" by a Stakeholder Model and a Resource-based model that emphasizes the importance of employees and community among

others as an important stakeholder or relevant resource for the firm (Freeman *et al*, 2007; Freeman, 2010; Pfeffer, 1972; Pfeffer and Salancik, 1978; Peng, 2003; Peng and Zhou, 2005; Yoshikawa & Phan, 2001).

A third cluster of different governance practices could be attributed to considerable *institutional voids* in the emerging markets and Southeast Asia and China in particular (Khanna, Palepu & Sinha, 2005). In Russia and China, one could claim that a form of State Capitalism rules these economies. To a certain extent, Asian firms – either family or state owned - are more closely related to insider governance structures with the additional constraint of a number of weak institutional structures as in protection of minority rights, corruption and weak legal enforcement among others. Overcoming institutional voids will not be resolved by preaching ethical principles or complying with "best" corporate governance practices which may not be applicable in such a constraining structural business context. In order to overcome such institutional voids, most businesses have associated themselves with the political elite in power, building useful relationships or *guanxi*, almost the opposite of the arm's length rule of mainstream corporate governance (Chua, 2012; Verhezen, 2008b; Verhezen & Morse, 2009 & 2010). These business relationships – to be distinguished from coercion by corrupt public officials – are perceived as a valuable resource in obtaining competitive advantage (Young *et al*, 2001; Sun *et al*, 2011). One even dares to speak of a "relationship-based governance mechanism" that allows business to survive in a context where law enforcement is weak; in such cases trust and reputation have partially taken over the role of rules and regulations (Allen, 2005; Verhezen, 2009).

Ethical behavior within *guanxi* relationships

A simple acid test to judge whether a *guanxi* network is in fact ethical is to determine if there are victims resulting from *guanxi* relations. In other words, a *guanxi* practice is ethical only if it causes no harm to a third party or to society as a whole. Examples of victims would include competitors or customers, or even undetermined stakeholders. When *guanxi* or a network becomes a pure exchange, a degradation process of displacement and a process of commodification enter the relationship, or when *guanxi* commoditizes into a shadow of money exchange only, the network degenerates into its corrupted form of nepotism and clientelism (Verhezen, 2008b & 2009). The direct payment of corruption money trivialises and degrades the practice of *guanxixue* to monetary compensation and bribery in certain contexts. This is why business *guanxi* has gained such a notorious bad reputation, inside

ASEAN countries (with the possible exception of Singapore), India, China and other emerging countries.

Any governance mechanism should aim to balance the arm's length principle that emphasizes the importance of neutral objectivity in managerial decisions and some form of relationship that binds people. G*uanxi*, unfortunately, quite often results in personal gain for the agent [or executives] as individual beneficiaries of the nepotistic relationship at the expense of the principal [or firm], and undermines the price mechanisms of the market which make these relationships from an efficiency, effectiveness and merit point of view, *highly* problematic.

Public financial information is very limited while government and bank intervention were perceived as "useful" for the business to thrive in Asia. In other words, information is still closely guarded within a group of vested insiders who benefit from this *managed capitalist system*. Unfortunately, such a relationship-based system has proven to be inefficient to monitor the responsibilities and accountabilities of those in charge – a primary role of governance. If public governance is in disarray, more, if government officials and politicians are intervening in business process decisions, one cannot expect businesses to adapt to "best" corporate governance practices of transparency, accountability, responsibility and fairness. The more so because both governmental officials and favoured business groups have vested interest to keep such beneficial relationships that have brought them no windfalls. Relationships should not be banned altogether, but features of minimum transparency and accountability may be needed to reduce "un-economic" and unfair corruption and clientelism. Although the Anglo governance system operating at arm's length with their main stakeholders and being quite ruthless in accountability of business results have produced quite innovative companies, one should not just dismiss relationship-based governance as always ineffective and corrupt. Relying on long term relationships with suppliers, bankers, customers and employees may have some significant advantages as well – such as loyalty, incremental progress, the willingness to share gain and pain among their associates, among others - that may not be easily found in an Anglo-Saxon system. Unfortunately, relationships-based governance that use discretion to make decisions often leads to certain abuses, especially when the power by the elite is not monitored or scrutinized through appropriate check and balances, either publicly or within corporations. These institutional flaws or voids

we have descrined elsewhere as a “zeta”-risk[1]. Taking advantage of those voids by engaging in specific networks, or by having inside access to legal frameworks – not necessarily all legal or ethical appropriate – one can often obtain some “competitive” advantage within such a business context. Moreover, well connected patriarchs, tycoons and their organizations will use networks to obtain business deals and to enforce contracts. Any business that can reduce these organizational risks in one way or another will help to achieve a higher return or a better competitive advantage. One should note that such an advantage is not transferrable to a global context where a more distant rule of law is enforced. Minority shareholder rights are protected and anti-corruption laws enforced in both a shareholder and stakeholder model in the Western hemisphere, contrary to the situation in the emerging markets where individual rights are not so well protected.

If corporate leadership aspires to gain back the trust of the community one may want to take *integrity* of leaders and organizations seriously. The minimum one can expect from any wise leadership is that they do not harm, be fully accountable for their decisions and actions, and that they take their social and moral responsibility seriously toward relevant constituencies of the firm within the boundaries of reasonableness, with the ultimate objective to optimize sustainable organizational value. Unfortunately, that sounds rather like an ideal then a business reality. Without going into detail, the many ethical debacles of unethical behavior and corruption on a global scale seem to confirm this.

Anglo-Saxon governance rules – determining mainstream corporate governance – and Western philosophical ethical notions will not fly far in an Asian context. Hence why Asians have adopted an attitude of [ethical] skepticism or relatvism that prefers opaqueness to keep unwanted outsiders at bay and a no-nonsense ruthless Machiavellistic behavior where high moral norms or ethical principles hardly play a role in pursuing a favorable financial bottom line.

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[1] See Verhezen, Hardjapamekas & Notowidigdo, 2012. The zeta risk as Verhezen has suggested can be expressed by the following formula whereby each of the components refer to a specific risk: $E(Rj) = \propto + \beta(Rm - Rf) + \gamma + Z + \varepsilon$. Alpha return or $\propto$ is company specific “excess return on investment” and is based on a Good Strategy implemented. The Beta risk or β is Industry related x risk premium/discount (for being in that particular industry). Omega risk reduction or γ through intermediaries or 3rd specialized parties assisting the company (services distinguishing the company’s returns). Finally, the Zeta risk reduction + risk opportunity seeking or Z through specific “expansion” plans within a new context allowing *specific returns above the normal expected returns* in a known context with Beta risk: Reputation, Norms/Standards,/Culture, and the Institutional Context. Most likely there is some correlation between Zeta and Alpha so that part of Zeta might be absorbed in Alpha returns over time (i.e. When the extra return is absorbed in the stock price assuming that CAPM still makes sense). ε is a statistical residu.

A pragmatic approach beyond "Roman" ethical relativism in Asian Emerging Markets

Expanding a minimum of procedural neutrality in terms of unbiased procedures and some policies structured towards impartiality will help increase 'generalized' trust in management and benefit merit based efficiency in companies. In short, if they occur in public domains of life when there is a high potential for conflicts of interest and if they are examined through the lens of procedural justice, *guanxi* practices are more likely to be viewed as problematic. But then again, changing the underlying values of 'particularity' towards a more 'impartial' market system may take time. Any hasty transition may be questioned. And we should not ignore the important fact that *guanxi* – or any (business) relationship for that matter – remains a potent strategic or tactic weapon in the form of social and symbolic capital, which obviously can be turned into economic capital and gain (Verhezen, 2008a; Chen *et al*, 2011). And although ethical behavior may not immediately pay off, it definitely wields influence in any relationship. With growing globalization and intertwined international economies, (international) "governance rules of the game" on an institutional level and the trust generating power of integrity on an individual level are to be recommended.

Creating trustworthy corporate leadership underpinned by GCG principles

Visionary individual ethical leadership and good "institutionalized" corporate governance mechanisms – albeit affected and induced by a better 'public' governance context – may be an effective answer to the problem of corruption, ineffective board functioning, moral hazards and irresponsible corporate behavior. Admittedly, corporate governance can only thrive in a business context where governance structures are legally and publicly accepted and enforced, and when ethical incentives and ethical behavior can make a difference.

Claims that corporate governance systems are currently undergoing a strong convergence are a little far-fetched. Although it is true that weaknesses in Asian corporate governance systems were widely seen as a primary cause of the Asian crisis and the after effects, it is unlikely and not even recommendable that Asian emerging countries will adopt a variant of the Anglo-Saxon "outsider" model.

Governance will not prevent misconduct or misdeeds, but it can actually improve the way a corporation is run in Asian countries. One usually refers to successful companies that apply *"best" [international] corporate governance principles* as those who have diligently

incorporated and integrated (1) the protection of basic shareholder rights, (2) the prohibition of insider trading, (3) disclosure of board and top managers interests and adherence to international disclosure standards, (4) a respect for the legal rights of main stakeholders of the company while acting responsibly within a wider community context, (5) an independent audit committee that regularly meets, (6) the norm that all shareholders should be treated fairly by the board, (7) the expected disclosure of capital structures that enabled certain shareholders to obtain disproportionate control, (8) providing good access to information by the board members, and (9) allow fair and timely dissemination of information to all relevant parties involved.

These corporate governance principles are so generic that they can function as a beacon in any business context. Nonetheless, these "universal" principles will need to be translated in to a legal and cultural context that can embed and "absorb" them. It is the board's fiduciary duty to its shareholders to guarantee [the implementation of the generic principles of] transparency, fairness, accountability and responsibility, the main pillars of good corporate governance practices. Without understanding and re-interpreting those four generic principles and without them wisely translating and or transforming them into a specific Asian business context, these governance principles will remain nice slogans or thick-the-box-exercises without any real substantial impact on the ruling and functioning of the organization.

The Board's main task is *to monitor, control and oversee* the performance of top management and the continuity of the organization (Carver, 2010; Chew & Gillan, 2009; Gelter, 2009; Huse, 2007; Larcker & Tayan, 2011). In addition, the non-executive directors at boards provide valuable *advice and mentoring* to top management. In this advisory capacity, the board, indeed, pays attention to guide top management's decision that balance risk and reward, whereas in its oversight capacity, the board aims to monitor management and ensure that it is acting in the best interest of the company's long term goals. The board is a governing body elected to represent the interest of shareholders and the company at large. The *fiduciary duty* of a board[2] usually includes a *duty of care* that requires directors to make

[2] See Bainbridge, 2008; Bebchuk et al, 2004; Charan, 2005 & 2009; Dimma, 2002. These fiduciary duties are often translated in the legal requirement of having at least two or three professionally run subcommittees at the board: (1) a committee of internal audit and internal control to contain accounting and other specific risks, (2) a nomination committee that explicitly safeguards that the best professional CEO will be chosen, and (3) a remuneration committee that decides on an appropriate and fair remuneration package for its top managers, and sometimes (4) a subcommittee to assess the risks that are allied to the suggested strategy. One could argue that there is a functional convergence of these corporate governance practices, but obviously no convergence in the legal implementation of them.

decisions with due deliberation, a *duty of loyalty* that addresses conflicts of interest whereby the interest of shareholders should prevail over the interest of a director, and a *duty of candor* that requires that management and the board inform shareholders of all information that is important in their evaluation of the company and its management. Governance systems are influenced by the owners of the firm, its managers, creditors, labor unions, customers, suppliers, investment analysts, the media, and regulators and all those who could significantly affect [the value of] the company. In practice, non-executive directors spend most of their time on advising management on strategic planning, competition as well as succession planning, executive compensation, monitoring performance, and compliance and regulatory issues. However, implementing these "best" practices may not be enough. The role of board directors in well governed family firms should also show the passion for the company, look long term and take personal ethical (as distinguished from legal) responsibility for the firm. In other words, the board should be fully and personally committed over the long term – possibly owing some shares (that can only be sold after the retirement from the board) – and preferably pursuing a purpose beyond mere profitability that is associated with a higher "common" purpose. Such firms with a committed and responsible board have a greater chance to thrive over a longer period.

One of the main challenges for emerging markets is to adapt itself to international best (corporate) governance practices while retaining its own identity and unique culture. The tension between formal corporate governance practices – which are based on an arm's length system that endorses transparency, fairness, accountability and responsibility – and an informal *relationship-based system* in Asia – which is often seen as the main currency for any exchange – will need to be steered to a manageable balancing act that integrates both into globally acceptable "best" corporate governance practices within an Asian context (Verhezen & Morse, 2009). Such a balance will evoke the importance of transparent and disclosed information, protection of all shareholders based on the principle of fairness, accountability and responsibility by board and management and integrate those values with a unique system of relationship building. However, government and bank intervention may be seen as not optimal to achieve economic efficiency. Because of the paucity of public information, enforcement of contractual claims largely depends on the effectiveness and "quality" of those long term relationships, ASEAN countries (except the well-functioning island of Singapore), China and India will need to improve the effectiveness and efficiency of institutions that mediate between the economic and political actors through a better legal system, dramatically enhanced public and corporate governance and appropriately implemented values in business

that accentuate and integrate its unique rich culture. We do not advocate to transplant a set of corporate governance features of often Anglo-Saxon origin, but we do believe that contextualizing "best" corporate governance principles as found in some of the best and thus most competitive firms will help Asian companies to gain trust from institutional investors and business community and to become more effective in the process.

Asian emerging economies are bedeviled by 'official' corruption that reaches far into business. Moreover, since oversight by regulators, boards and even institutional shareholders is not that well established (compared to the West) and not as significant in the minds of top executives, one will need to rely on creating trust and credibility by the firm, avoiding ethical breakdowns. It is well documented that quite a number of firms in Asia (but also in the West for that matter) face a number of barriers to become an ethical organization, especially in those situations where unethical behavior is overlooked when it is in the interest of the organization or when it is in the interest of top management to remain ignorant, labeled *motivated blindness* (Bazerman and Tenbrunsel, 2011). Another potential barrier is the *slippery slope* or *indirect blindness* which allows unethical behavior to be carried out when it develops gradually or when it is carried out through third parties respectively. And one of the most dangerous situations is where unethical behavior is accepted because the *outcome is* "good" and thus *overvalued*; in such a case it is recommendable that the firm rewards solid decision processes and not just good outcomes. A frequent quite subtle ethical fallacy is setting goals and incentives to promote a desired behavior while in fact encouraging a negative one, as in *ill-conceived goals* (Bazerman *et al*, 2011; Donaldson & Preston, 1995; Madsen & Shafritz, 1990; Paine, 1994; Singer, 2010). The pressure to maximize billable hours in accounting, consulting and law firms which focus on the financial short term rewards instead of the long term credibility of the firm is such an example of ill-conceived goals.

Overcoming such ethical skepticism "to do as the Romans do in Rome", and to become a trusted leader who guides the organization to sustainable value underpinned by best corporate governance practices will be a main challenge for most entrepreneurs and investors in these Asian emerging economies.

Benefiting from Risk-adjusted corporate governance and "good behaviour"

The danger of "ethical compartmentalization" of our behavior is well known among practitioners and those teaching business ethics in the Asian emerging economies. It seems

that many Asian executives believe that they survive by compartmentalizing their behavior, attempting to live by high moral standards at home while allowing a more loose interpretation at work. However, it limits our ability to connect to our values, to be a moral agent, and to act with ethical courage and integrity (Rozuel, 2011). Moreover, such compartmentalization prevents self-knowledge by allowing fragmentation of the individual – the opposite of the wholeness of integrity (Verhezen, 2008a) – and it disconnects us from an appealing and energizing higher "common" purpose in business that really motivates people. If you add then the negligence of implementing good corporate governance mechanisms, one is in for underperformance or even some potential disasters.

Quite a number of Asian manufacturing companies are part of a global value chain that cannot ignore the perils of bad publicity, especially in B2C business. Those Asian firms that have developed their own brand image and reputation will acknowledge that emotional appeal, great product or service quality and reliability and responsibility by management that constitute part of their intangible assets.

This enhanced intangible value has a number of potential benefits that over the longer term definitely outweigh the cost of investing in such behavior. Reputable Asian firms will have easier access to the financial institutions and capital markets with a lower of cost of capital; they can easier retain managerial talent; international customers and consumers are more loyal to responsible brands; and the trust gained as result of appropriate behavior will ease the regulators and other rules-enforcers both local as international. Finally, it has been argued that GCG and visionary ethical leadership will result in improved efficiency and effectiveness. Singapore and Hong Kong are such beacons within Asia which have gained prominence through their good reputation to be reliable, to enforce the law and to have high working standards.

Let me briefly give you two examples that indicate the importance of trust and good reputation: one well documented case in China – Kelon – and one ongoing case in Indonesia – the ABB and SMART.

Kelon once was a highly successful Chinese household appliance company in the 90s, presumably well governed. However, the sudden collapse of Kelon in 2001 shocked most investors and can be attributed to extraction of Kelon's cash flow – even after its flotation on the Hong Kong Stock Exchange – and appalling corruption (Sun *et al*, 2011). This organizational rent appropriation – a typical agency problem in emerging markets – reveals how corporate governance was reinterpreted, hijacked and manipulated by those in power at the expense of minority shareholders and other stakeholder groups (Sun *et al*, 2011). In

shows how the darker side of guanxi has destroyed the firm, despite its initial success as a trusted and well governed firm

The other obvious example is SMART, a Palm-oil company, owned by the Indonesian SinarMas group that has been widely criticized by ecologists for not abiding by the international Round the Table of Sustainable Palm Oil rules. Under pressure of Greenpeace and consumers, P&G, Unilever, Kraft and other heavy utilizers of palm oil were pressed to ban SMART from their supplier list. However, since bringing in some good professional managers, SMART management rectified the firm's policies and practices in such a dramatic manner that most stakeholders including Greenpeace have decided to give the firm another chance. SMART has made good progress and is being perceived as a turnaround success story in that it was able to gain trust and reputation by effectively improving its transparency, accountability and responsibility to shareholders and stakeholders alike. On the other hand, however, ABB, one of the main pulp and papers manufacturers in the world and also owned by the SinarMas group, does not currently fare that well in terms of reputation compared to its sister company SMART. Independent of their debt payment issues resulting from the Asian crisis – not the topic of this essay – ABB is still ostracized by numerous NGOs and consumer activists for not complying to the international pressure to preserve tropical forests, and for endangering the biodiversity in those regions by their logging activities. The future will tell whether the group will be able to also turn around ABB to become a good corporate citizen.

Family businesses – such as the SinarMas group – will only benefit from implementing good corporate governance principles. Studies reveal that family members who acts as good stewards instead of agents positively affect the board's and firm's performance (Chu, 2011). That is what we hope for those Asian emerging giants: that they take full responsibility and be accounted for their business activities within the rule of law, allowing them to become great companies, competing with the best. Great business leaders care about the "dance of their shadow", i.e. the consequences of their decisions and actions over time (Van den Broeck and Venter, 2011; Porter & Kramer, 2006 & 2011). Those ethical leaders ensure that their impact inspires others. Such a courageous attitude as found in stories of commitment, perseverance, integrity and a sense of justice are an anti-dose for the cynical attitude of accepting corruptive behavior through clientelism and guanxi, and circumventing the risk reducing corporate governance mechanisms, all in the name of short term opportunism.

Concluding: corporate governance structures and integrity must play their respective roles

Although most Asian countries are slowly moving from a person-based to a rule-based society where the importance of relational and procedural neutrality in managerial decisions is acknowledged, powerful networks with government officials and bankers remain a very important ingredient in the success of many Asian family businesses. The personal use of *guanxi* may be elevated to an organizational level and is often interpreted as part of the social and customer capital of the organization, despite the ascending value of the rule of laws, merit-based reward, and global competitiveness. In a growing "capitalistic" oriented economy based on merit and competition, accountability, transparency and formal rules, the influence of *guanxi* as an instrument to gain personal advantage may decrease over time while its social meaning may remain entrenched in cultural life.

Nonetheless, family business and especially state companies in Asian emerging markets tend to be more concerned with *guanxi* and its instrumental use than with sincere ethical behavior. Hence, completely avoiding the less socially benevolent or even pure instrumental and negative side of *guanxi* will prove to be extremely difficult and even naive. Blindly accepting *guanxi* as a cultural Asian practice without questioning its intentions and the possible consequences for a company over a longer period would also be a grave mistake. It would be wise to understand the opportunities and pitfalls of networks or *guanxi,* allowing it to play its social role in an Asian business context by advocating appropriate networks while acknowledging its intrinsic ambiguities and temptations.

Without legitimate leadership based on a high level of integrity and structured by corporate governance mechanisms, certain presumed ethical behaviour will remain nothing but window-dressing at best. Asian family businesses deserve better. Cultural differences play an important role in management decisions, but primarily as a matter of emphasis. Family leadership of business firms, including large companies, occurs in very similar ways in most regions, though more common in Asia, compared to Anglo-American firms.

Nothing wrong with networks, as long as the leadership or patriarch is guided by integrity that is aligned to a higher common purpose , instead of short term opportunism, and steered by "best corporate governance practices", they will become reputable competitors.

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