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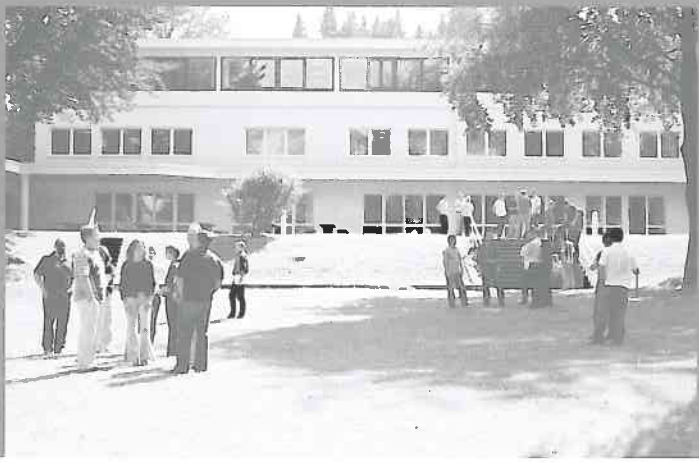

Empirical Evidence of Corporate Governance Disclosure in Brazil, China, India, Korea and Russia

von Tristan Nguyen und Natalie Djodat

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Tristan Nguyen[**], Natalie Djodat [*]

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ABSTRACT

In this paper, we examine the level of disclosure on corporate governance practices among the biggest companies (in terms of market capitalization) in the top five emerging markets Brazil, China, India, Korea and Russia in the time period 2007-2008 and its effects on performance and profitability. Using the survey of 50 companies with the UNCTAD Guidance on good practices in corporate governance disclosure as a benchmark we find that – ceteris paribus – the rate of disclosure: (1) is higher for companies in Brazil and India compared to Russia and Korea; (2) is higher for companies operating in financial services compared to other sectors; (3) correlates positively with return on equity; (4) does not affect market valua-tion; (5) increases with the legal environment; (6) increases with the market infrastructure.

The results of the study support theoretical arguments that corpo-rate governance disclosure increases performance, measured by return on equity. However, this study disproves theories that find a positive correlation with market valuation, measured by price to book ratio. Practical Implications: A country's government environment – especially legal and market infrastructure - highly affect the companies' rate of disclosure which then increases profitabil-ity. To policy makers and practitioners, the results suggest that corporate governance should be monitored. Good legislation and a market environment free from corruption are essential for corporate governance disclosure to be efficient.

Keywords: Corporate governance, disclosure, emerging markets, transparency, price to book ratio, return on equity, governance environment

1 Introduction

Corporate Governance refers to the structures and relationships that determine the way in which an enterprise is controlled, administered or directed. A wave of corporate scandals in recent years (Enron, Worldcom, Parmalat,…) have shown how important good corporate governance is. Some economists (Diamond and Verrecchia, 1991) suggest that greater disclo-sure of corporate governance lowers information asymmetry and estimation risk. Corporate governance disclosure should improve financial performance and raise investor confidence. Thus, firm performance and governance should be well communicated to outside investors and stakeholders in order to create information symmetry. Previous research studying the elements and effects of corporate governance in general and specifically in emerging markets documents a number of interesting, in-depth, yet sometimes questionable studies, providing insights in effects and effectiveness of disclosure.

The McKinsey Quarterly (Newell and Wilson, 2002) published a study examining the as-so-ciation between good practices corporate governance and market valuation in 2002 arguing that corporate governance disclosure improves companies' financial performance and in-creases their market valuation, reduces risks and raises investor confidence. The study com-pares the level of corporate governance in 188 companies from India, Malaysia, Mexico, South Korea, Taiwan and Turkey and their market valuation measured by its price to book ratio. The companies' price to book ratio on the local stock exchange is compared to some key components of corporate governance like independence, shareholder equality and financial transparency. The main outcome of this study is that corporate governance is positively asso-ciated with price to book ratios indicating investors' willingness to pay a higher premium for shares in well governed companies in emerging markets. The surveys findings indicate a 12% increase in market valuation by moving from worst to best score in corporate governance dis-closure. Moreover, their survey shows that countries like South Korea and Malaysia per-formed much better than India, Mexico and Turkey. The article explains this outcome by the Asian companies' effort to improve their corporate governance resulting from the 1997 Asian crisis and the country's increasing requirements regarding corporate governance disclosure.

Standards & Poor's (Patel, Balic and Bwarkira, 2002) published a survey studying the effects of corporate governance disclosure (ownership structure, financial transparency, board and management structure) of 354 firms in 19 emerging markets documenting significant differ-ences among countries. Transparency in Asian and South African markets was much better in comparison to Latin America, Eastern Europe and the Middle East. However, no differences among business sectors are found. Furthermore, the survey indicates that the correlation be-tween transparent disclosure and cross-holdings is negative. This means that less information disclosed to minority shareholders if large investors own a large proportion of the company. The correlation to price to book ratio is positive, suggesting a higher premium paid by the market for better disclosure - in line with Newell and Wilson's findings.

Chen and Jaggi (2000) analyzed the correlation between independent non executive directors and mandatory corporate governance disclosure. This study shows a positive correlation be-tween the proportion of independent directors on corporate boards and financial disclosure. One might argue that this is because outside directors tend to encourage firms to disclose ad-ditional, not particularly requested information to stakeholders; thus an increasing proportion of independent board members would suggest more voluntary disclosure. Further research by Chen and Jaggi, however, shows that this relationship is weaker when considering family controlled firms in comparison to non-family controlled firms. A likely explanation for this finding might be the assumption that non-independent board members of family controlled firms exercise their power over independent board members and thus control the information flow between the firm and its investors.

Eng and Mak (2003) published an article about corporate governance and voluntary disclosure examining the impact of ownership structure and board composition on voluntary disclo-sure. They surveyed the annual reports of 158 Singaporean firms in 1995; the board composi-tion is measured by the percentage of independent directors. The survey indicates a positive correlation between voluntary disclosure and the proportion of independent directors. Distin-guishing between managerial ownership, blockholder ownership and government ownership and comparing it to voluntary disclosure of strategic, financial and non-financial information the survey indicates that lower managerial ownership and higher government ownership are associated with higher rate of voluntary disclosure, whereas no correlation to blockholder ownership was found.

In 2004, the World Bank (Klapper and Love, 2004) initiated a survey about corporate govern-ance, investor protection, and performance in emerging markets. The overall result of that survey was that good governance positively correlates with market valuation, measured in price to book ratio, and operating performance, measured in return on assets, whereas those correlations are even stronger in countries with weak legal systems. One possible explanation for this might be the assumption that firms in countries with weak legal structures would want to adopt better firm level governance in order to counterbalance the weakness in their coun-try's laws and signal their intention to offer greater investor rights. The survey moreover indi-cates that in general, firms in countries with weak legal systems disclose less information, which might be due to the assumption that weak legal systems decrease effectiveness of dis-closure practices.

La Porta et al. (2000) argue that poor legal protection of investors in emerging markets weak-ens the effectiveness of disclosure. Strong legal protection would enable investors to act on disclosure, whereas weak protection hinders investors to rely on disclosure and future pros-pects, which makes disclosure less effective. La Porta et al. stress the need for outside protec-tion of investors in order to make financial markets work; moreover, financial markets them-selves should be regulated in order to create transparency and fairness especially regarding large firms that are state-owned or controlled by large families operating in various compa-nies spread over different countries and markets.

Morck et al. (2006) argue that weak legal protection of private property rights makes informed risk arbitrage in emerging markets unattractive and thus renders disclosure ineffective. According to Morck et al., weak legal protection in emerging markets discourages investors from capitalizing on firm specific information; it is rather market wide flow of information or events that result in changes of demand and thus stock prices. Consequently synchronous stock price movements are observed. On the contrary, stock prices in countries with a higher GDP move in a rather unsynchronized way. Another explanation for their finding might be the assumption that firm earnings among companies in countries specialized in certain indus-tries change simultaneously as an effect of industry events.

A study by Chen (2004) examines the effects of corporate governance using the data of a sur-vey on corporate governance of 604 companies by Credit Lyonnais Securities Asia. They find that a high level of disclosure can significantly lower the cost of equity, whereas this relation-ship is only significant in countries with weak investor protection. Comparing their findings to a country's governance environment they conclude that firm-level protection and country level protection are substitutes to each other when assessing the cost of equity. Chen con-cludes by stressing the importance of legal systems regulating and controlling disclosure in order to make corporate governance disclosure effective.

Bhojraj and Sengupta (2003) examine the association between corporate governance disclo-sure mechanisms, bond ratings and yields analysing a sample of 1005 debt issues collected from the Warga Fixed Income Base between 1991 and 1996. The study indicates a positive correlation between disclosure and bond ratings and a negative relation between disclosure and bond yields showing how governance mechanisms can reduce risk and information asymmetry between companies and lenders. Furthermore Bhojraj and Sengupta find that this relationship is especially significant when regarding firms that have greater institutional own-ership and stronger outside control and note that corporate governance disclosure lowers a firm's default risk and reduce potential conflicts of interest through increased transparency.

Standard & Poor's governance analysts Dallas and Chavee (2005) published a commentary report on the role of country risk in assessing corporate governance contrasting foreign cur-rency credit ratings with external governance related indicators (market environment, legal environment, regulatory environment and informational infrastructure) of 21 countries includ-ing nine emerging markets in 2005. They find that sovereign credit ratings correlate positively with corporate governance environments: as expected AAA rated sovereigns show superior governance environments, whereas BB or lower rated sovereigns have rather weak govern-ment environments. However, countries like India and Brazil distinguish themselves posi-tively comparing their strong governance environment to their weak foreign currency rating. Nevertheless, countries like Spain, France and Italy have relatively good foreign currency ratings but weak legal, infrastructural, regulatory and informational governance environments.

Reviewing literature regarding corporate governance disclosure in emerging markets it becomes clear that the associations between levels of corporate governance disclosure, profitability and performance, the country level of legal protection of investors, ratings as well as the proportion of required and regulatory disclosure are not only highly relevant but also to a certain extent ambiguous matters to discuss and analyze. Most of the studies reviewed provide information on disclosure practices concentrating on specific markets and areas of disclosure, however, are relatively outdated (Newell studied 188 companies 6 emerging markets in 2001, Patel studied 354 firms in 19 emerging markets 1997-2000, Eng surveyed 158 Singaporean firms in 1995); moreover the benchmark is often not clearly defined.

Recognizing this deficit in the literature, this study provides a transparent up-to-date survey of the disclosure practices of the top ten companies in the five biggest emerging markets (BRIC countries and Korea) in 2007 and their compliance with UNCTAD good practices in corpo-rate governance disclosure. Furthermore, the results of this survey are compared with certain indicators like return on equity, price to book ratio, voluntary disclosure as well as the coun-tries' governance environment.

2 Survey Methodology and Results

The purpose of this survey is to analyze practices in corporate governance disclosure in five emerging markets. For this reason a sample of 50 companies (Appendix 1) of the top five emerging markets according to the MSCI Emerging Markets Index is considered: the ten big-gest companies (ranked in terms of market capitalization) in Brazil, China, India, Russia and Korea. These 50 companies represent 33% of the whole index's market capitalization (938 companies). The benchmark used in this survey is the 2006 UNCTAD publication "Guidance on Good Practices in Corporate Governance Disclosure". This survey organizes a total of 53 individual disclosure items into five broad categories: ownership structure and the exercise of control rights, financial transparency and information disclosure, auditing, corporate respon-sibility and compliance, board and management structure and process.

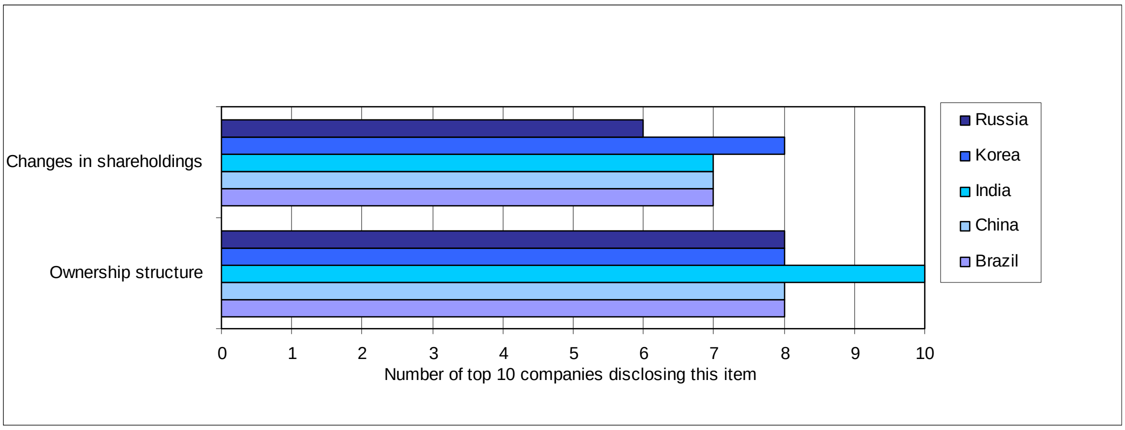
For the purpose of this study, a wide range of corporate reports were taken into account including annual reports, corporate governance reports, corporate social responsibility reports, company bylaws, charters and other information available from financial databases and enter-prise websites, in both English and the respective national language. During this process the 53 disclosure items were identified as either disclosed or not. Additionally the source of in-formation was noted. After completing each company's review, the enterprise's investor rela-tions department was contacted in an effort to have them overlook the review of their com-pany's corporate governance disclosure. This process highly contributed to the quality of this survey and increased its objectivity, as 30% of the companies contacted commented on their review by adding additional information or discussion of the results via teleconference.

2.1 Ownership Structure and Exercise of Control Rights

The control and ownership structure of an enterprise is a fundamental concern from a governance perspective in order to facilitate investment decisions with regard to the treatment of shareholders and thus should be disclosed according to UNCTAD (2006) and many other guidelines around the world. A good understanding of the company’s ownership and control is particularly important to help understand corporate governance risks. On the most basic level, information on the ownership structure tells us whether the company is widely or closely held. The governance risks associated with a widely held company are quite different from those associated with a closely held company. In a closely held company, minority shareholders may run governance risks associated with the actions of a dominant shareholder. On the other hand, in a widely held company, governance risks tend to be associated with strong managers and dispersed owners.

The present survey counted 42 of the 50 companies surveyed disclosing their ownership structure. This outcome was expected as it is of major importance for shareholders or potential investors to be informed about the major shareholders and one of the basic disclosure items. In India, every single one of the 10 companies surveyed concretely made these disclosures. Important changes in large shareholdings, particularly when they reach, exceed, or fall below certain thresholds, should also be disclosed. However, only 35 of the 50 companies surveyed disclosed changes in shareholding that occurred over the past years.

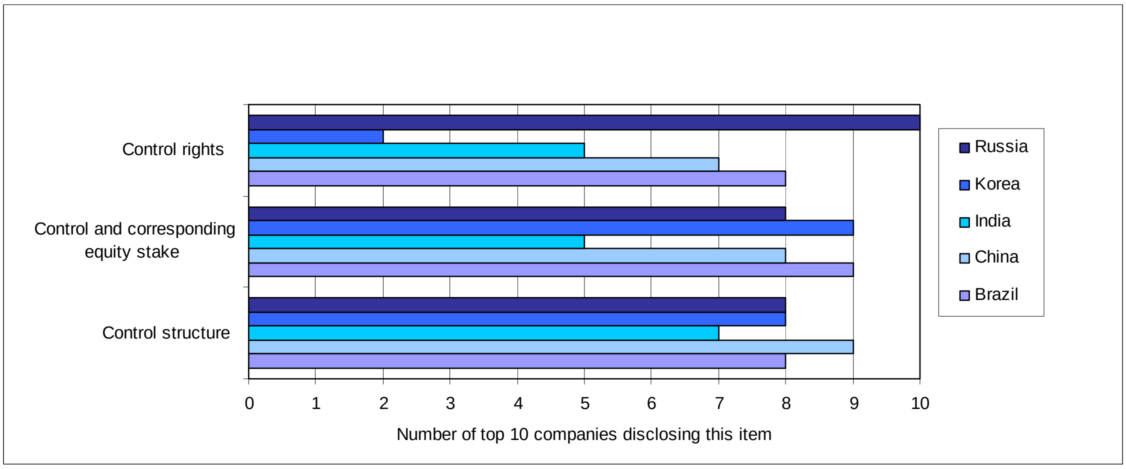
Figure 1: Ownership Structure and Changes in Shareholdings



Different ownership structures may bestow different rights and obligations upon owners. Especially minority shareholders would be interested in any differences between voting rights and ownership that may occur because of, for example, different classes of shares owned by shareholders or arrangements under which certain shareholders have a degree of control disproportionate to their equity ownership. The International Corporate Governance Network strongly supports the "one share one vote" approach due to the fact that it leads to a transparent decision making process among shareholder and decreases investment risk, however, the OECD does not count among advocates of this approach. There are many examples of mechanisms that provide disproportionate control. Common examples are golden shares with special rights, or different share classes with different rights, or as a result of voting caps or special shareholder agreements. It may, for example, not be possible for a minority shareholder to fully vote his stake in the company due to voting limits, or it may be that voting is irrelevant because the ownership structure puts control fully in the hands of a dominant shareholder. It is in the interest of shareholders to be aware of the ownership structure of the company and the rights of different owners, since they will have a direct impact on their ability to assert their own claims.

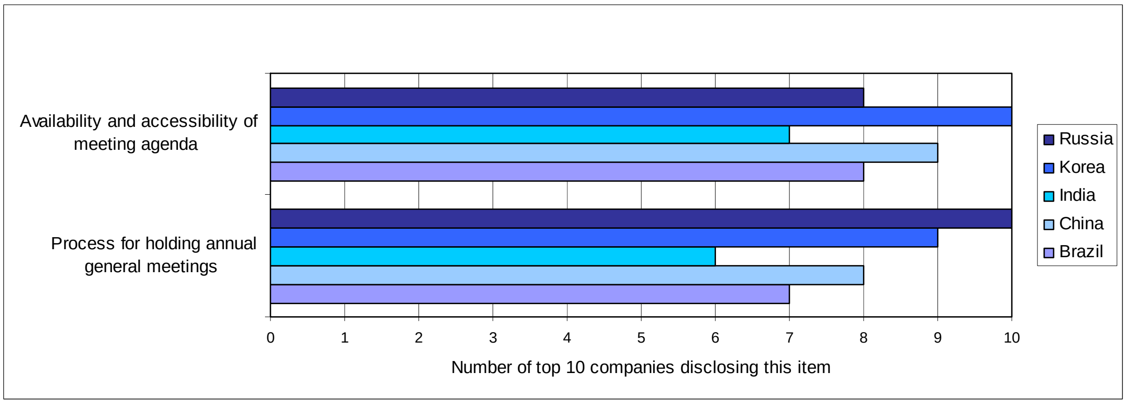
64% of the companies surveyed published in-depth information about their shareholders' rights. Every single Russian company we surveyed disclosed this kind of information, but only two of the 10 Korean companies did so - even though the disclosure of this item is mandatory according Korean regulations. Four of the 10 Korean companies surveyed are listed on the NYSE which also requires this item.

Figure 2: Control Structure, Rights and Equity Stake



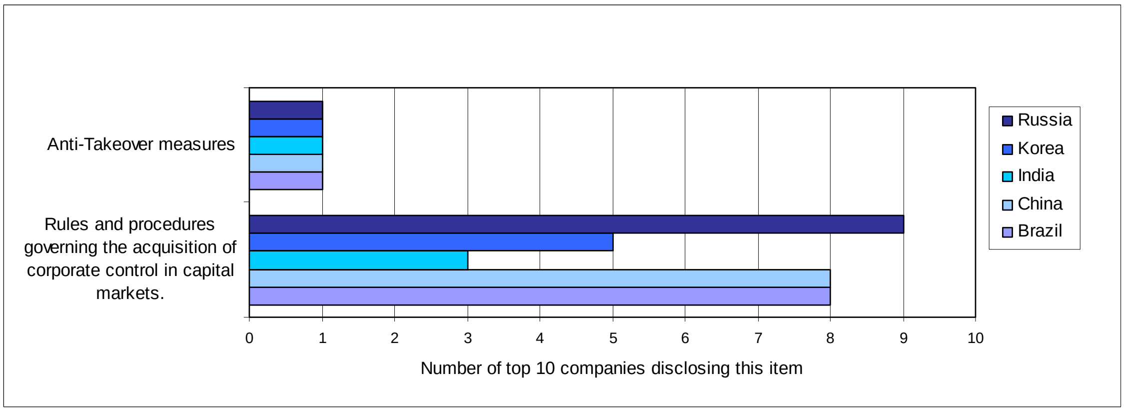
General meetings are the principal opportunity for shareholders to involve themselves in the decisions of the enterprise and should - according to the OECD principles - make shareholder participation as simple and effective as possible in order to reach consensus and for shareholders to exercise monitoring and control. Central to the organization of the meeting and shareholder participation is the meeting notice and the agenda. Both must be easily available to shareholders in order for them to participate effectively. The process by which the enterprise organizes an annual general meeting or extraordinary general meeting is typically found in the company’s articles. Almost all of the companies surveyed publish information about the process of holding their annual general meeting and its agenda. Russia, Korea and China showed the best results in this category.

Figure 3: Annual General Meetings



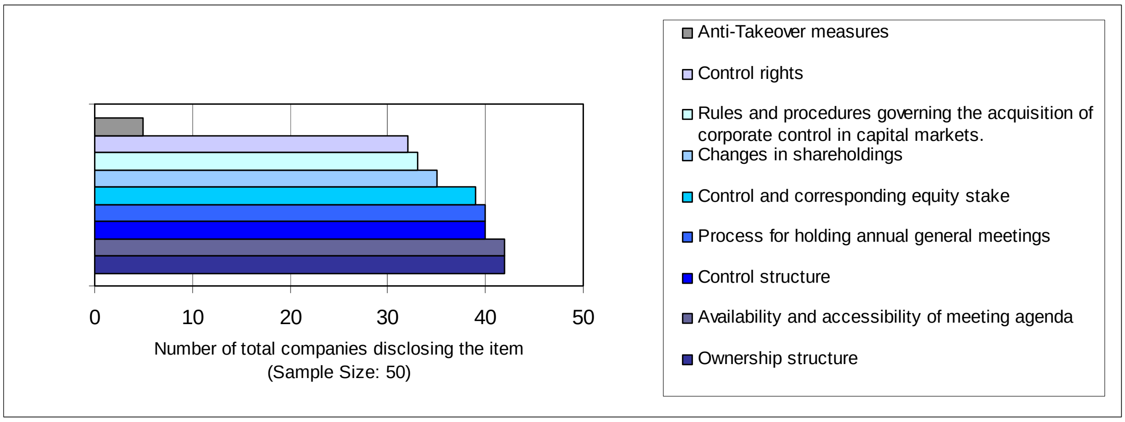
For shareholders it is important to know the rules and procedures for assuming control of an enterprise on the open market so that they understand their rights should such an event occur. The applicable laws of the country in which the enterprise is based usually determine these rules and procedures. But, any rules and procedures that are specific to the enterprise and the particular transaction should also be publicly known. Only 33 of the 50 companies surveyed published this kind information. However, important differences among countries can be noticed with respect to this item. Whereas only three of the 10 Indian companies disclosed this item, 9 out of the 10 Russian companies did so. There is no logical explanation for the weak Indian disclosure concerning this matter, especially the fact that this item is required both by Indian regulations and by the NYSE where two of the surveyed Indian companies are listed.

Figure 4: Anti Takeover Measures and Corporate Control



One of the two least disclosed items of this survey are Anti-takeover measures. These are actions that an enterprise can take to prevent a controlling interest in the enterprise from being acquired. Anti-takeover measures can be used legitimately in shareholders' interest to maximize the value of takeover bids. However, they can also be used to entrench management to the detriment of shareholders, and to destroy shareholder value. Anti-takeover measures come in many different forms and often carry evocative names like poison pills (the right to purchase discounted stock for everyone but the acquirer). Only 5 of the 50 companies we surveyed disclosed information about any anti takeover measures, even though this item is required in four of the five countries examined (all except India). Paradoxically one of the few companies that disclosed this item is from India (Infosys Technologies) and not listed on the NYSE, thus voluntarily disclosing this rare information.

Figure 5: Group of Items: Ownership Structure and Exercise of Control Rights



When examining the overall results regarding the disclosure of ownership structure and control rights we find that the 50 companies surveyed disclosed seven out of nine items of this group on average. When not considering the disclosure of anti takeover measures 80% of this group of items is properly disclosed by the 50 companies, which is a meaningful result. This could be due to the fact that nearly all the items (except anti takeover measures in India and equity stake in Russia) are required by both national regulations and the NYSE (UNCTAD, 2007).

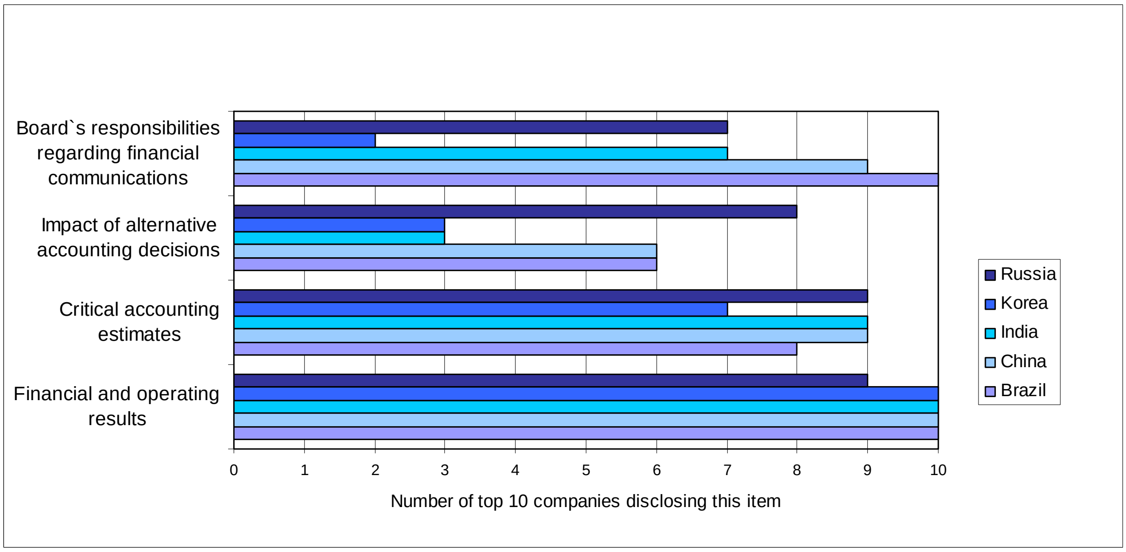
2.2 Financial Transparency

One of principle underpinnings of good corporate governance is to ensure that share- and stakeholders are provided with disclosure on financial and operating results in order to understand the current state of affairs. Those can be found both in annual reports and filings, should include financial statements including a balance sheet, a profit and loss statement, a cash flow statement and notes, director’s reports, management’s discussion and analysis. This information is requested by almost all corporate governance codes such as the OECD Guidelines or the International Corporate Governance Network Principles. The quality of financial disclosure, however, highly depends on the reporting standards and accounting principles of the country. The International Financial Reporting Standards (IFRSs) provide a widely recognized benchmark concerning the quality of this disclosure item.

Moreover, critical accounting estimates should be disclosed in order to increase the usefulness of the disclosure of operating results. Those are estimates and assumptions that are essential to understanding the financial statements, and which involve significant judgments and uncertainties. Critical accounting estimates disclosures may, for example, include a discussion of the accounting treatment of revenue recognition on long-term contracts, accounts receivable, inventory; investments, goodwill, pension and post-retirement benefit accounting, accruals and other factors that may materially affect the financial statements.

In addition, companies should disclose the impact of alternative accounting policies and decisions in their financial statements. The disclosure may include a discussion of the effects of critical accounting policies, the judgments made in their application, and the likelihood of materially different results if different assumptions were to be used. Moreover, board’s responsibilities regarding financial communications, i.e. duties in the oversight of the process of producing, reviewing, approving, and submitting the financial statements to the shareholders should be disclosed in order to give investors a better understanding of the risks they are taking in relying on the management (i.e. audit committee formed by directors) and the accurateness of the presentation of financial results.

Figure 6: Financial Disclosure

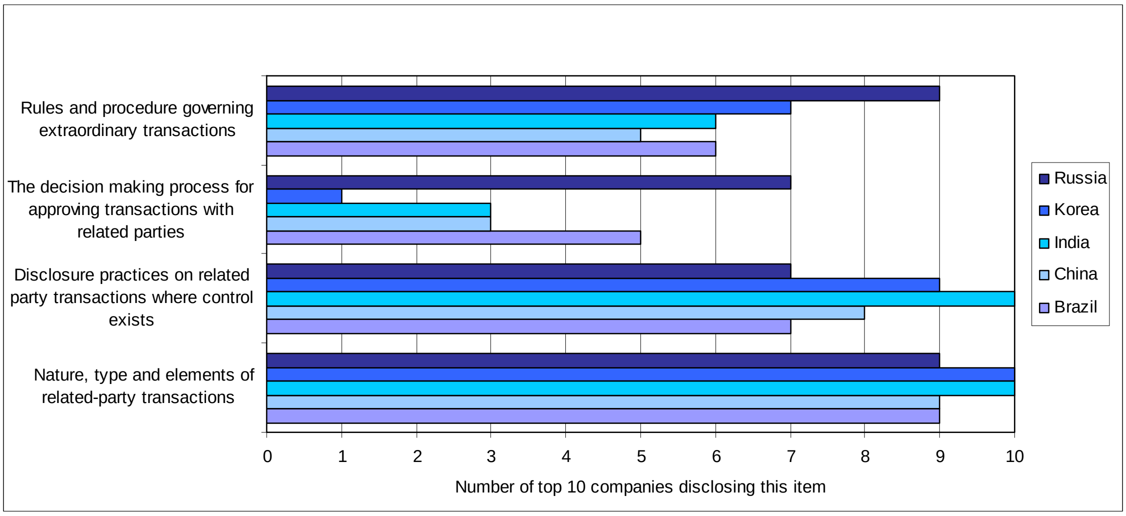


49 of the 50 companies surveyed perfectly disclosed their financial and operating results. This result was expected as financial information should be found in any annual report and is essential for shareholders to evaluate a company's performance. Critical accounting estimates were disclosed by 42 of the 50 companies, whereas the impact of alternative accounting decisions only by 26. One might think that this is due to the fact that the latter item is required by neither Brazilian nor Russian regulations, but the countries in which companies disclosed the least information concerning this item are actually India and Korea. Again, results among the five countries differ. Especially the ten Korean companies we surveyed disclose very little financial information.

Given the significant potential for conflict of interest, there is a special obligation to ensure that related party transactions occur transparently and are subject to public examination (required by most national reporting standards and IFRS). Companies typically have procedures to ensure that related party transactions occur at “arm’s length”. Arms length transactions between two related or affiliated parties are conducted as if they were unrelated, so that there is no question of a conflict of interest, any prejudice or harm of the enterprise. A related party can be a division or subsidiary of an enterprise, a joint venture, any enterprise or person related to a major shareholder or member of management, or any enterprise in which the reporting enterprise has control or a significant financial stake. Companies usually have procedures in place for approving related party transactions. The aim of this type of disclosure is to assure that the company is acting upon the best interest of all share- and stakeholders in the oversight of the quality of all related party transactions. Moreover the board of directors has to make sure that all affiliated entities and subsidiaries have been properly consolidated and presented.

Furthermore the occurrence of extraordinary transactions, and also the rules and procedures for approving extraordinary business transactions, such as mergers, a sale of a substantial portion of the company, or the liquidation or dissolution of the enterprise should be disclosed. Extraordinary transactions typically require approval by a vote of the shareholders and may even require a supermajority to approve them. In this survey 47 of the 50 companies disclosed information about related party transactions, but only 19 actually described the decision making process of approving those transactions. Procedures governing extraordinary transactions, however, were explained much more often. In this section we also notice country specific differences. Korean companies showed very weak disclosure regarding the approval of related party transactions even though regulations concerning this matter are very strict in Korea (the Corporations Code of Korea for example requires a special resolution for transactions that possibly result in a sale of a substantial part of the enterprise). Russia on the other hand showed very good results, especially when considering the fact that the disclosure of related party transaction is not required by Russian regulations (however disclosed by nine out of ten companies).

Figure 7: Disclosure of Related Party/Extraordinary Transactions



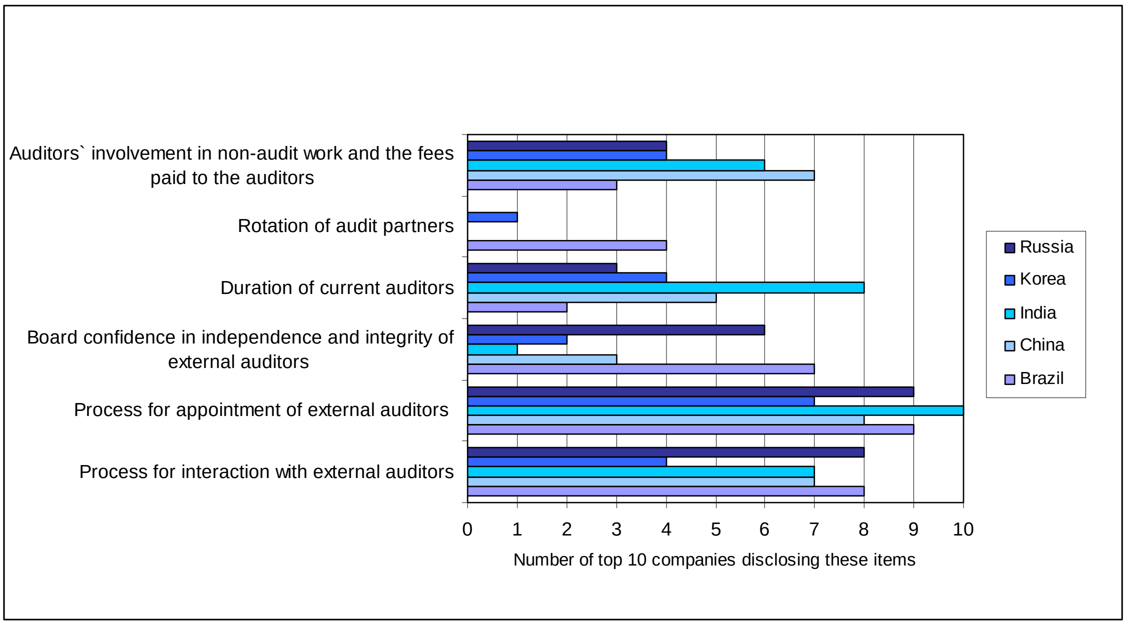
2.3 Auditing

Another fundamental pillar of good governance is the independent external audit. Shareholders rely fundamentally upon the auditor’s assurances that the financial statements of the enterprise truly reflect the company’s state of affairs. In the absence of the external independent auditor, the statements of an enterprise would be of questionable value. Typically, the independent auditor is paid by the company and works closely with its management and personnel in the audit of the company’s financial statements. At the same time, the auditor owes its ultimate allegiance to the corporation's stockholders and creditors, as well as to the investing public. Ensuring that the auditor is objective and independent of the company and its management, and capable of providing reliable assurances on the veracity of a company’s financial statements is of great importance given the potential consequences of a false presentation of the company’s affairs. Thus, much attention is paid to the procedures employed to ensure the auditor’s independence and the rendering of an unbiased opinion on the financial statements.

An important complement to the work of the independent external auditor is that of the internal auditor. The internal audit brings a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and control within the company. The internal audit differs from the external audit in that it is an internal consulting activity designed to improve a company’s operations through an independent, impartial evaluation and assurance process. Most companies report on the procedures for appointing both internal and external auditors and the procedures they have to ensure that the external auditor remains independent. Disclosures including the identity of the external auditor, how they are selected and appointed, and the processes of interaction with both internal and external auditor are often combined.

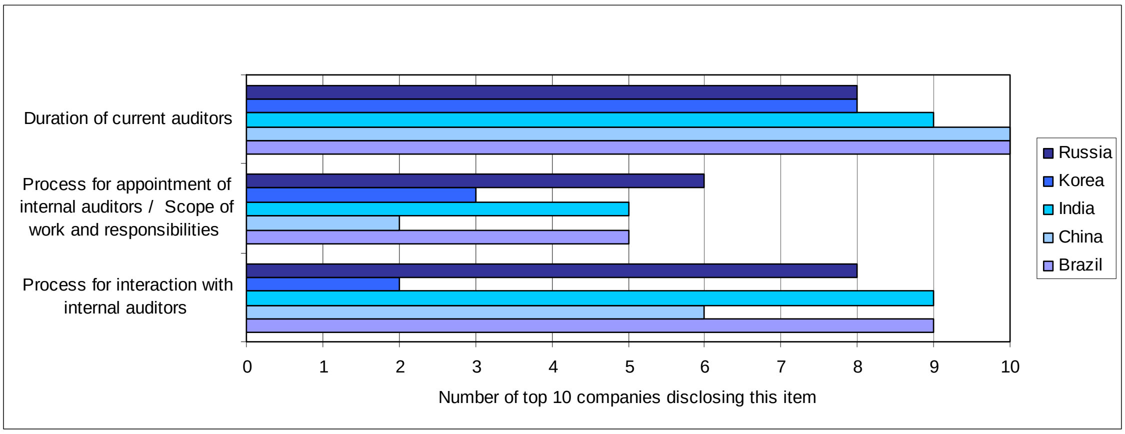
In addition to appointment and responsibilities of auditor, the duration of auditor’s contracts, the rotation of audit partners (it is important to note the difference between audit partner rotation and audit firm rotation. Audit partner rotation only requires the audit partner to change, while audit firm rotation requires the company to regularly change the audit provider), the auditors’ involvement in non-audit work (like advisory services or technical support functions) and fees paid to auditors should be disclosed in order to help ascertain the extent to which a threat to the auditor’s independence exists. Furthermore, most companies have internal control systems that help ensure the smooth flow of operations, and provide assurances regarding the reliability of financial reporting and management information systems. Often, the internal auditor reviews the internal control systems and reports on what they find to the board.

Figure 8: External Audit



This survey shows large differences among countries as well as many shortfalls with respect to the disclosure of external audit services. Even though the appointment and interaction with external auditors was disclosed by 43 and 34 companies, only 19 of the 50 companies disclosed statements expressing their confidence in the auditor's independence and integrity and only 22 mentioned the duration of the current auditors. The best performing country concerning the disclosure of the auditors' duration is Brazil; eight out of ten companies surveyed disclosed this information. This might be because of the fact that nine out of ten Brazilian companies surveyed are listed on the NYSE and thus required to disclose this item. Many governance codes require regular rotations of the audit partners; only five of the surveyed companies (four Brazilian and one Korean Company) disclosed whether they had these kinds of processes. The fees paid to auditors as well as their involvement in non audit services were very poorly disclosed, even though required by Brazilian, Indian and Korean regulations.

Figure 9: Internal Audit and Control



The disclosure of internal audit and control systems shows better results, however, only on average. 45 of the companies surveyed disclose their internal control systems, only 21 informed about the appointment and the responsibilities of their internal audit. Again, China and Korea performed very poorly. Only three of the Korean companies disclosed information concerning their internal audit, even though required by the Korean Code of corporate governance.

2.4 Corporate Responsibility and Compliance

A company uses different resources in the production of goods and services. These include capital, human resources, other goods and services, and property. Companies generally seek to optimize the use of each production input in order to make the best product or service at the best price. However, unlike a commodity, the optimal use of some production factors such as, for example, human resources, depends to a large extent on their fair and responsible treatment. Human resources when managed properly have the capacity to bestow significant competitive advantage to companies; unlike any other factor input, well-managed human resources have the capacity to think, innovate and solve problems. Alternatively, poorly managed human resources are unlikely to contribute fully to the corporation. Their unfair treatment may even carry risks: the creation of an underproductive or alienated workforce.

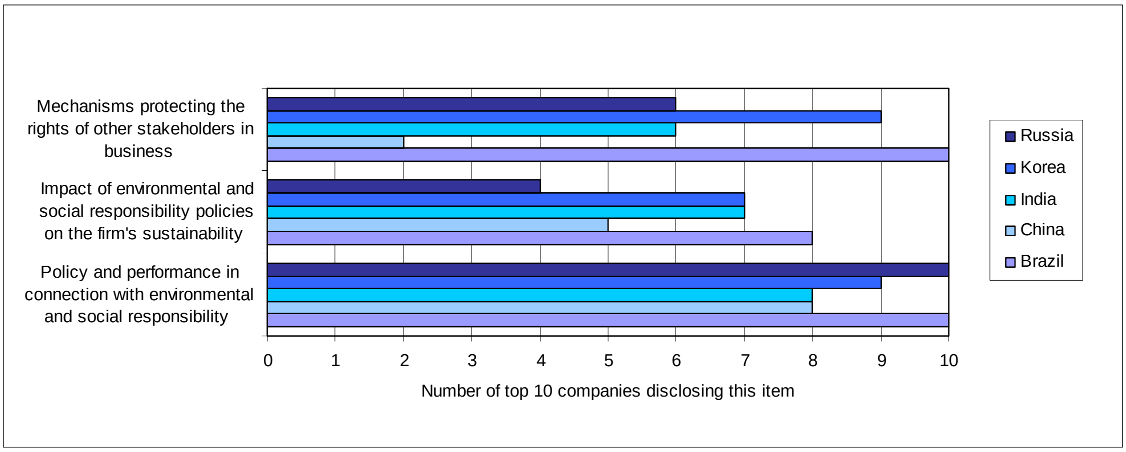
Similarly, corporate relations with other stakeholders such as creditors, suppliers and the communities in which the company operates can either pose opportunities to achieve superior performance, or may pose potential risks if mismanaged. While the obligation of a company to act responsibly has been disputed at times, it is increasingly agreed that responsible corporate behaviour can enhance the performance of the enterprise and attenuate potential risks. As a consequence, it is important that boards consider not only the quality of the company's relations with shareholders, but also its relations with other contributors of resources to the company (such as employees, creditors and suppliers) in their assessment of the company's strategy, individual projects and risks.

Standards for what is responsible or appropriate corporate behaviour are often embodied in law. Thus, the front line in ensuring responsible corporate behaviour is compliance with the law. For this reason, the board has the important duty of overseeing the corporate compliance function. In other cases, what is responsible behaviour is embodied in internal and external guidelines and standards. The extent to which a company has ethics codes (along with any waivers to members of the board), and environmental and social policies, or adheres to external codes is important to understanding its commitment to responsible behaviour.

Companies increasingly disclose their environmental and social policies, and performance. These disclosures range from brief philosophical statements to in-depth disclosures of policies, goals and performance, particularly common in companies with large environmental and social impacts such as energy extraction or mining, but relevant to virtually any company. Socially responsible investing as well as corporate social responsibility attract major attention of not only investors but also stakeholders nowadays; can be both challenging, risky but also rewarding when regarding Social Indexes like the FTSE4GOOD or the Dow Jones Sustainability Worlds Indexes.

UNCTAD (2006) also stresses that "an enterprise's environmental performance could affect it financial health and hence its sustainability. Thus, the impact of environmental and social policies on the sustainability of the enterprise is an increasingly important criterion for evaluating companies. Impact disclosures try to link corporate responsibility to the achievement of social goals, business objectives and financial outcomes. Mechanisms protecting the rights of other stakeholders like suppliers; dealers; customers; creditors; joint venture partners; banks; and employees become more and more important in times of advanced corporate social responsibility (OECD Principle IV). Stakeholders can be protected by a variety of means including the law, individual contracts, and codes or best practices.

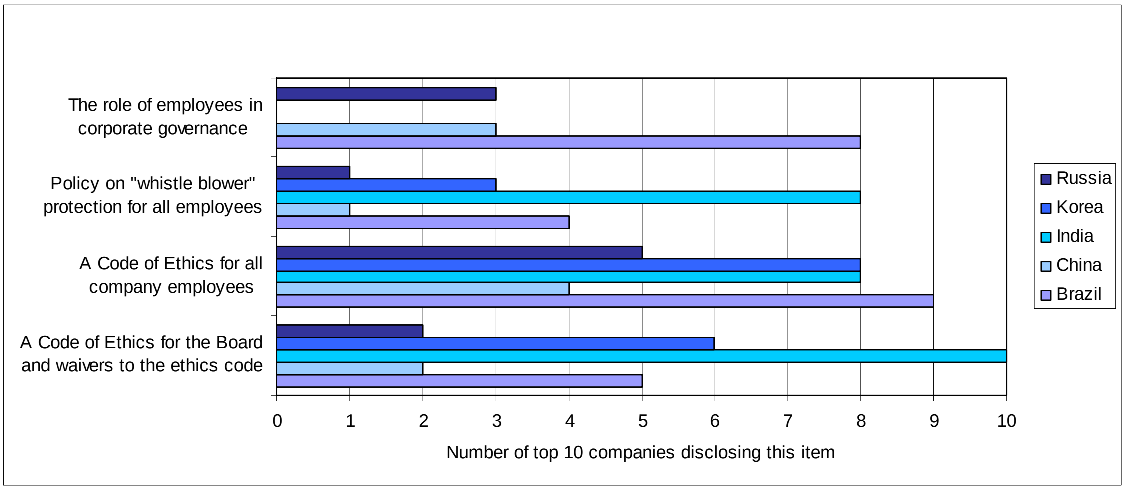
Figure 10: Corporate Social Responsibility



This survey indicates that 45 of the 50 companies surveyed publish their policies and performances in connection with environmental and social responsibility; in both Brazil and Russia all of the companies did so. Not only the increasing trend of corporate social responsibility but also the high percentage of companies operating in the oil and gas industry might be a reason for that outcome. Nine out of ten Korean companies disclosed information concerning this issue even though it is not yet required by the Korean corporate governance code. 31 out of 50 companies survey also stressed the impact of those activities on their firm's sustainability even though this is only required in Brazil and India. We note important differences regarding the companies' statements about the protection of other stakeholders. All of the Brazilian companies surveyed had such mechanisms but only two out of ten Chinese companies even though Chinese regulations require this.

The role of employees in corporate governance is also suggested to be disclosed. It includes any formal interaction between employees and the governance structures of the company such as, for example, employee representatives on the board or employees electing some of the supervisory directors. Those structures should be disclosed to the company's shareholders. Under some circumstances, employees may become aware of cases of corporate misconduct. Misconduct can be criminal acts, infringements of an enterprise code of conduct, or a threat to the public interest as in fraud, corruption, or health and safety violations. Most cases of whistle blowing remain internal to the enterprise. External whistle blowing is when the employee reports misconduct to someone outside of the enterprise, often the media, watchdog groups, or law enforcement. Internal whistle blowing allows the enterprise to take appropriate corrective actions before the misconduct becomes a public issue. It should therefore be assisted by putting in place confidential reporting mechanisms that protect employees against any potential retribution.

Figure 11: Ethics and the Role of Employees



This survey indicates that the role of employees in corporate governance is very poorly disclosed by Russia, China and especially Korea and India. 34 of the companies sampled outline a code of ethics for all of their employees, only 25 specifically waive to the board members. Especially Russia and China performed very weakly regarding these items. Unlike Brazil, neither Korean nor Indian companies outlined any mechanisms for employees to take a role in corporate governance.

2.5 Board and Management Structure and Process

The purpose of the board is to monitor the company and its management on behalf of the shareholders. The board is where all corporate governance issues come to a head. Without a good board, shareholders and other stakeholders may run undue risks - as will the company itself. It is because of its central role in the governance of the corporation that investors and the markets pay very close attention to the structures and procedures that determine its operation. An effective board reduces risks by monitoring the company and its management, and through the rigorous examination of fundamental business decisions. Board structures and processes, in turn, contribute to how well the board fulfils its expected functions. Board structures (i.e. committees and checks on the power of management) and processes (i.e. for selecting and interacting with an external auditor, or the approval of related party transactions) are of fundamental importance to the effectiveness of the board. If good structures and procedures are in place, investors may have a heightened sense that their interests are being protected and that fairness will prevail. In the absence of such structures, investors may perceive a higher degree of risk.

Policies to prevent or manage conflicts of interest are generally reflected in the governance structures of companies. The most common mechanisms to manage potential conflicts of interest are committees. The areas in which there is the most potential for conflict of interest are in the audit function, remuneration, nominations and the evaluation of management's performance. Committees are often established in these sensitive areas. Committees should be built in order to facilitate the board's fulfilment of its functions and are, under ideal circumstances, staffed fully by independent directors. Virtually all enterprises disclose the composition of their board of directors. Most companies accompany information on board members with an explanation of the role and function of the board of directors. Furthermore, 47 of the 50 companies surveyed published their committee structures including their functions.

In a general sense, all governance structures have to provide checks and balances. However, there are special mechanisms that a company may put in place to ensure that decisions taken by some are reviewed and approved by others. Systems of checks and balances are designed to make sure that power is not too centralized and that the decision making process is structured so as to prevent unjust benefit to any one person or group. When one talks of checks and balances, one is often referring to checks on the chief executive's powers and on management in general. Two examples of ways of providing checks on corporate leaders are two tier board structures (supervisory and management boards) or a clear division of roles and responsibilities of chairman and chief executive officer in a single tier board (especially required by the Cadburry Report as well as the Indian code). However, only six out of the ten Indian companies surveyed showed checks and balances mechanisms, whereas all of the Brazilian companies did.

Companies may disclose information on the positions that members of the board have on the boards and in the management of other companies. They may also disclose their policy with respect to the roles that executive board members can play outside of the enterprise. In order to determine whether board members are able to devote sufficient time to their duties and whether they are capable of independent judgment, it is useful to know how many other board memberships they have and whether they have any material interests. Many codes outline specific requirements and limitations concerning positions held by the directors. The FEE Report for example suggests the disclosure and differentiation of positions held in both public (also non profit) organizations and private sectors. This survey found that more than 80% of the companies in India, Brazil and China published this kind of information, whereas both Indian and Korean companies did not divulge this kind of information in 60% of the cases.

Companies should disclose the terms of directors' contracts. This type of disclosure may indicate when a director started with the board, the length of the contract, when the director was re-elected, and when the director will be up for re-election (or step down if it is already known). This type of information is useful when assessing the possibilities of electing new directors, and the likelihood of being able to influence the company through director elections. It is vital that companies manage the succession of key executives as well as key board members in order to ensure operational continuity (OECD principle IV.D.2). It is important to know the process by which top executives and board members would be replaced should they retire or pass away. This item was disclosed by 46 of the companies surveyed.

Companies should also disclose the process by which a director's remuneration is calculated, or they may disclose individual compensation levels, possibly with a breakdown of the various elements that contribute to a director's total remuneration (i.e. salary, share options, pension schemes, etc.). Payments to executives who stand to lose their jobs as a result of a merger or acquisition (colloquially referred to as "golden parachutes") should be disclosed as well. All the Indian and Chinese companies sampled published their directors' remuneration, whereas four out of ten Brazilian and Korean companies did.

Reporting on director development and training activities is not as common as other types of disclosure. The availability of director training is, nevertheless, an important bit of information, since it helps assess and improve the quality and skills of the directors. The most common type of training tends to be induction training that helps orientate new directors in their new roles. Another common type of training is topical. Topical training helps directors understand specific issues that confront the company, or aids them in completing specific tasks such as the management of an audit committee. The Indian Code passed the Companies Amendment Bill in 2003 which made director training mandatory. However, only four out ten Indian companies disclosed information regarding training mechanisms.

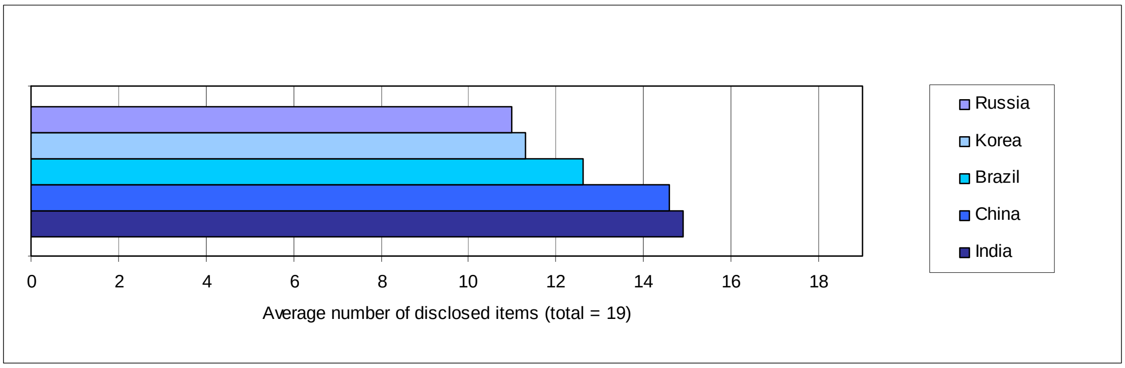
Some boards of directors are able to call upon independent external advisors (e.g. lawyers, accountants, etc.) to assist them in their work, in particular, in areas where there is the potential for conflict of interest or where special technical skills are required (such as developing remuneration plans, or conducting board performance evaluations). The disclosure of the ability of the board to make use of such experts may indicate to shareholders that the directors are informed and supported to the fullest extent possible. Korea is the only country among the countries surveyed where this is mandatory, thus 80% of the Korean companies disclosed these processes.

Few companies have performance evaluation processes for their directors. Assessments of director performance may compare directors' performance against a set of agreed responsibilities, general goals, and/or specific objectives. The specifics of an evaluation process are rarely disclosed. However, the existence of an evaluation process may be reported (for example directors' attendance at board and committee meetings). China is the only country whose national regulations require performance evaluation processes. In fact, eight out of ten Chinese companies surveyed disclose this information.

In the end, one of the most common disclosures made by enterprises relates to risk management, the recognition of operating risk, the activities and strategies involved in risk management, and the systems that the enterprise has adopted to minimize risks. All of the Brazilian and Chinese companies and most of the Indian, Korean and Russian companies disclosed their risk management activities (eight, five and eight out of ten companies).

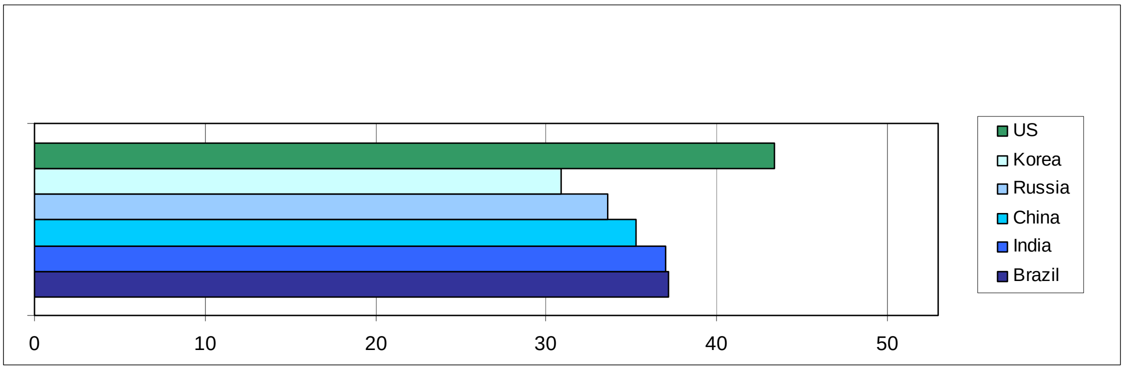
When comparing the five countries surveyed, we find that India, China and Brazil disclosed the most items in this section. The fact that both Russian and Korean regulations and corporate governance codes do not require most of the items evaluated in this group of items (six and seven out of 19) explains this finding.

Figure 12: Group of Items: Board and Management Structures and Process



When examining the differences between the five surveyed countries over all, we note that Korean companies disclosed the least (30 out of 53 items on average) and Brazilian and Indian companies evenly disclosed the most information regarding their corporate governance. When comparing this ranking to the countries' performances by the five groups of disclosure items, we note that the Brazilian companies' results always ranked either first or second, whereas Korean companies were always among the three least disclosing ones. In order to compare the five emerging markets results to an international benchmark, we surveyed the top ten S&P 500 companies additionally: as expected, the finding shows that the average rate of disclosure is far better in the United States in comparison to the five emerging markets surveyed. An explanation for the great rate of disclosure of Brazilian and Chinese firms might the fact that both countries introduced new codes in 2004, whereas the Korean code of 1999 is rather outdated.

Figure 13: Average Rate of Disclosure in Emerging Markets compared to US Companies



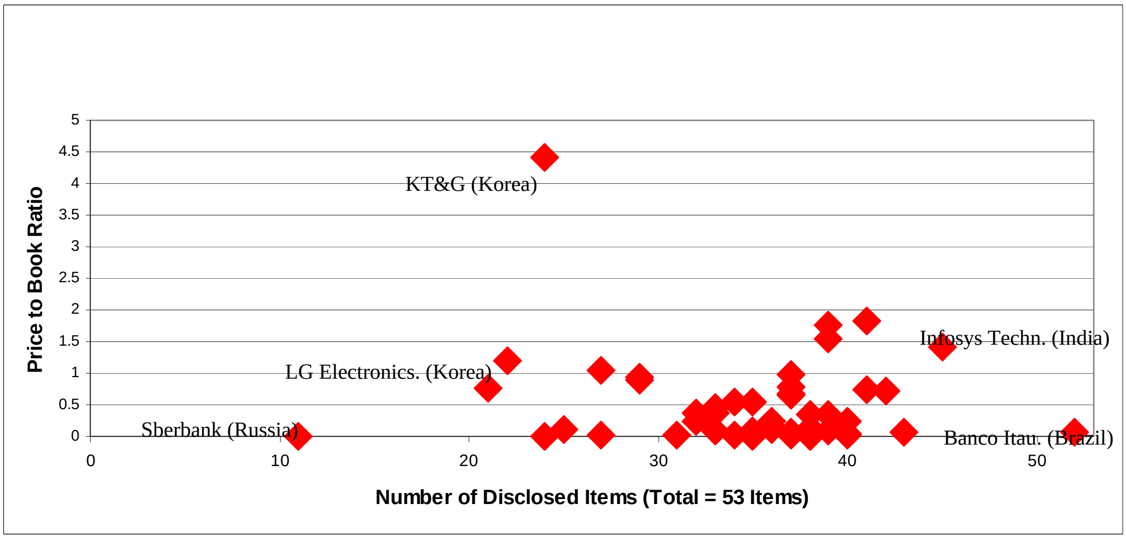
When comparing the disclosure practices of the different sectors, this survey indicates differences among sectors. On average companies operating in financials disclose more information about their corporate governance in comparison to companies operating in materials - especially in the group of items board and management structure and process. Although some disclosure items have similar results, the survey also establishes certain items which differ tremendously. This result disproves Patel's (2002) findings which indicated no differences among sectors. When regarding the fact that the survey included annual reports and publications of the financial year 2007, the strong disclosure practices of banks shows effects of the subprime crisis on corporate governance disclosure in this sector.

3 Corporate Governance Disclosure and its association with Profitability, Regulatory Frameworks and Governance Environment

3.1 Effects on Market Valuation and Profitability

As discussed earlier in the review of literature, Klapper and Love (2004) argue that good governance is positively correlated with market valuation. The McKinsey study "A premium for good governance" also finds a positive association between market valuation and good practices in corporate governance in emerging markets, measuring the market valuation by the price to book ratio (Newell and Wilson, 2002). The price to book ratio is calculated by a company's stock's capitalization (stock price times number of issued stocks) divided by the book value indicated on the company's balance sheet. This indicator accounts for the premium investors are willing to pay above the company's assets.

Figure 14: Correlation between Corporate Governance Disclosure and Price to Book Ratio



This study compared each company's price to book ratio to the number of disclosed items in order to disprove Klapper and Love's as well as Newell and Wilson's findings. As figure 13 shows, there is no significant correlation between corporate governance disclosure and price to book ratio (for detailed regression analysis see appendix 2). For example, the two companies LG Electronics and Infosys Technologies have very similar price to book ratios but disclosure practices that differ tremendously. According to La Porta et al. (2000) investors tend not to rely on disclosed information if legal protection is weak. The fact that investors are protected very poorly in emerging markets and the risk of high information asymmetry might explain the non existing association between the two figures.

As discussed previously, some economists suggest that good disclosure practices should improve performance and profitability. In order to test this hypothesis, this study compared the companies' rate of disclosure to return on equity, i.e. the company's yearly after tax income divided by its book value, indicating how efficient and profitable a company uses the equity provided by its stockholders.

Figure 15: Correlation between Corporate Governance Disclosure and Return on Equity

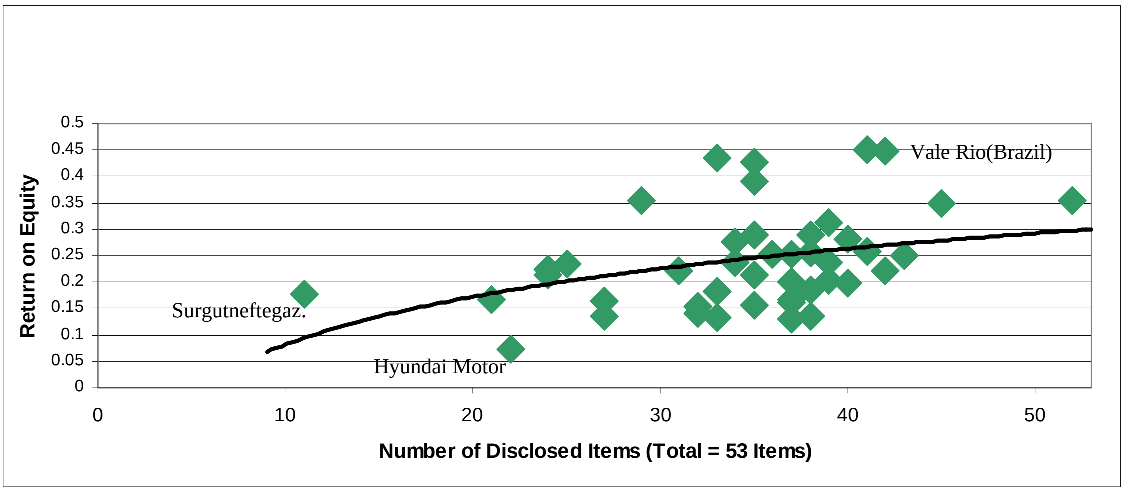


Figure 14 clearly shows that a company’s return on equity and the rate of disclosure correlate positively, and thus proves economic theory reviewed and Klapper and Love's hypothesis that a firm's corporate governance disclosure is positively associated with its performance: whereas Hyundai Motors disclosed only 22 out of 52 items and had a return on equity of 7.25%, the Brazilian company Vale Rio disclosed 42 out of 52 items and had a return on equity of 44.67% in 2007. This indicates that companies can not only reduce information asymmetry by disclosing information relevant to their stakeholders but also increase their profitability.

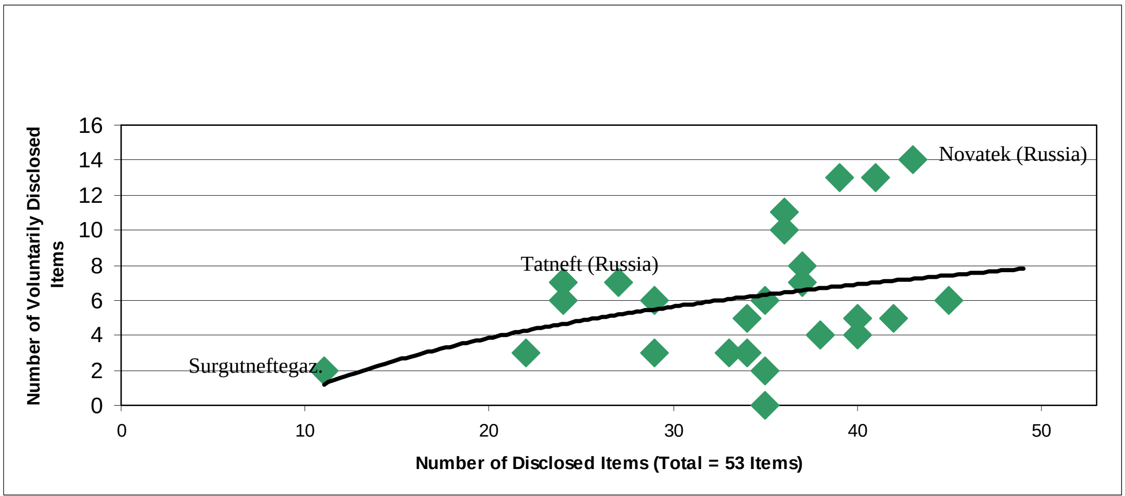
When comparing the companies' return on equity to the rates of disclosure distinguishing between the different groups of items we find very interesting results: we find significantly positive correlations with the rate of disclosure of the company's ownership structure and audit. This indicates that the transparent disclosure of ownership and control structure, shareholder rights, anti takeover measures and especially audit services increases a company's return on equity.

3.2 Voluntary Disclosure and Regulatory Frameworks

As reviewed earlier in this paper, disclosure is often determined by national regulations, international standards and guidance. The regulatory framework - depending on the company's listings - provides sometimes complex, sometimes merely vague recommendations and requirements what and how to disclose. However, even where no legislation exists, it is considered good practice for companies to disclose additional information, so that stakeholders are provided with all relevant information in order to assess a company's performance according to their interests.

The following evaluates the disclosure practices of companies that are only locally listed (24 out of 50 companies surveyed are listed on the NYSE are thus obliged to disclose all of the 53 disclosure items). Indeed, companies that disclose items they are not required to by their national regulations voluntarily, disclose more required information as well. The Russian Company Surgutneftegaz, for example, disclosed only 2 out of 18 items that are not required by Russian regulations, disclosing only 11 out of 53 items over all. In contrast, Novatek disclosed 14 out of 18 items voluntarily and 43 out of 53 items in total – high degrees of voluntary as well as required disclosure. So we conclude that a company that makes a commitment to disclose voluntarily also meets disclosure requirements in a better way.

Figure 16: Correlation between Corporate Governance Disclosure and Voluntary Disclosure



Chen (2004) as well as Eng and Mak (2003) argue that the existence of independent directors positively correlates with both mandatory and voluntary disclosure. They stress the assumption that independent directors tend to encourage firms to disclose more information to investors (than requested) and thus suggest more voluntary disclosure. This survey, however, indicates only a slightly positive relationship between the independence of directors and voluntary disclosure. Companies surveyed that had no independent directors disclosed 31.5 items on average, whereas companies that have independent board members disclosed 35.4 items on average. However, this conclusion is somewhat constrained. A suggestion for further research would be to test the proportion of outside directors (not only the existence) and its correlation to the proportion of voluntary disclosure.

3.3 A Company’s Goverance Environment

Klapper and Love argue that firms in countries with weak overall legal systems have on average lower rates of disclosure; Morck, Yeung and Yu’s findings show synchronous stock price movements in emerging markets explained by the assumption that investors do not rely on information disclosed by companies in countries with weak legal systems; La Porta et al. also note that poor legal protection of investors in emerging markets weakens the effectiveness of disclosure and stresses the need for legal protection of both companies and investors. Inspired by those findings this survey tried to establish linkages between corporate governance disclosure and a company's governance environment.

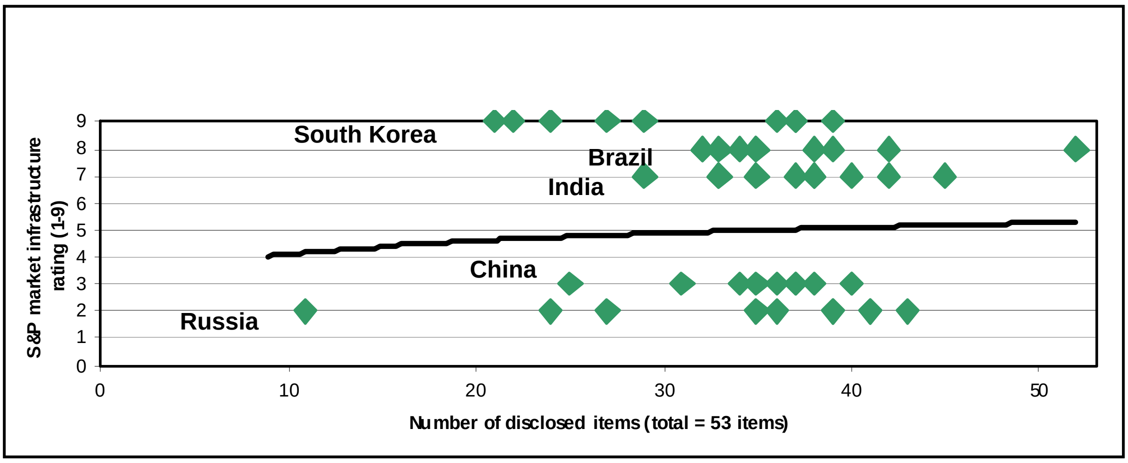
A report published by Standard & Poor's (Dallas and Chavee 2005) studies the correlation between a country's long term foreign currency credit rating and its governance environment, which is determines by four indicators: legal environment, market environment, regulatory environment and informational infrastructure. The “Composite Governance Index” rates 21 countries, including the ones we surveyed, accordingly. This survey's results were compared to S&P’s index in order to find out whether and how a company's practices in corporate governance disclosure are associated with its governance environment.

We find a positive correlation between a company's disclosure and its legal environment; i.e. “indicators of rule of law, judicial independence, efficiency of the legal framework, property rights, effectiveness of law making bodies and protection of minority shareholders”. This clearly proves Klapper and Love's as well as La Porta et al.’s hypotheses. Companies in Russia, where the legal environment is the weakest (ranked 1) among the 21 markets ranked in the S&P index, disclose less information than companies in India, where legal environment is ranked 10. It might be argued that companies in countries with strong legal systems are urged to disclose required information when facing strong legislation.

This finding again stresses the need for stronger investor protection and legal frameworks and institutions monitoring companies' disclosure.

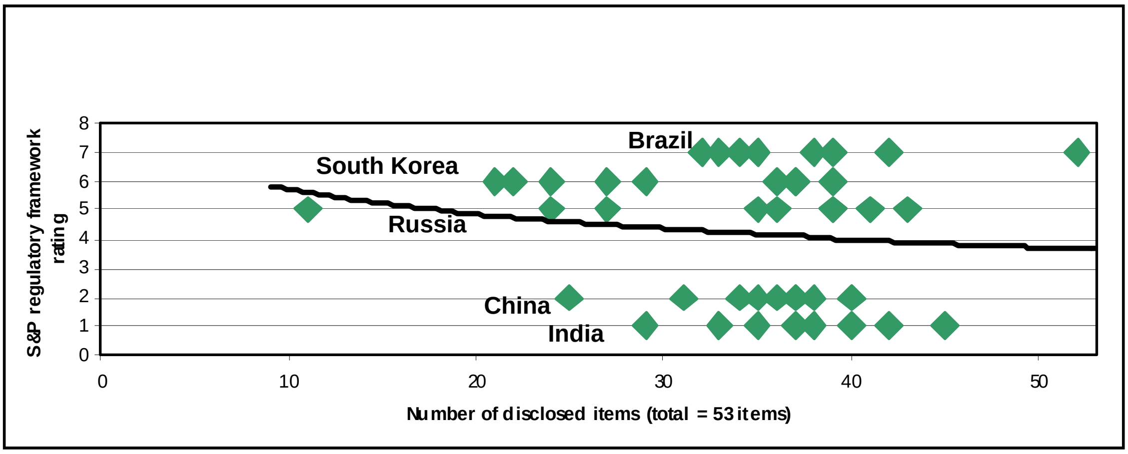
Furthermore, our findings show a slightly positive correlation between a company's rate of disclosure and its market environment, i.e. "indicators of corruption, foreign ownership restrictions, efficacy of corporate boards, importance of corporate social responsibility and financial sophistication". This result was expected and is also reflected in the ranking of most and least disclosing countries earlier in this paper (with reference to Russia). If companies' boards face less market barriers or corruption, they can operate in a more effective way, thus its corporate governance disclosure should also provide more transparency in comparison to a company surrounded by a corrupt market environment.

Figure 17: Correlation between a Country's Market Infrastructure and the Companies' Rate of Disclosure



Surprisingly there is a significantly negative correlation between the companies' rate of disclosure and their regulatory environment, i.e. "indicators of regulatory effectiveness and regulatory burdens" (Dallas and Chavee 2005). A possible reason for this outcome is the fact that a large percentage of companies surveyed are not only locally but internationally listed, thus their rate of disclosure is not only related to the country's regulations but for examples regulations like NYSE rules (for 24 out of the 50 companies surveyed).

Figure 18: Correlation between a Country's Regulatory Framework and the Companies' Rate of Disclosure



However, when distinguishing between the five groups of disclosure items we find, indeed, a positive relationship between a country's regulatory framework and its disclosure of ownership structure and corporate responsibility. So as expected, companies that face greater disclosure requirements also disclose more information to their shareholders. The growing importance of policies concerning corporate responsibility and transparent ownership disclosure and adequate shareholder rights are reflected in this outcome.

4 Conclusion

This survey examined and analyzed a range of the most important companies in various sectors across five emerging markets. Especially due to the collaboration with 30% of the companies and the in-depth analysis of all of the companies' publications this survey is to be considered representative for the five markets surveyed.

The outcomes of this survey provide many interesting up to date insights in the five markets surveyed. Not only main differences among the five countries but also among sectors were found. Companies in Russia and Korea – two emerging markets becoming more and more important – clearly have to improve their disclosure practices, especially when comparing their results to previous studies. Not only national guidelines and regulations but also international standards have to be respected in a better way. Contrarily, all of the Brazilian companies surveyed and most of the Indian ones performed very well, complying with most of the UNCTAD guidelines as well as their national requirements.

We found that items pertaining to easily accessible information and items that are required by national regulations are more often disclosed than rather specific items, which are not commonly requested. The two groups of items auditing and corporate responsibility and compliance were the least disclosed and need further disclosure. Concerning many auditing issues, companies tend to rely on their external audit; however, it is very important to also disclose the interaction, the appointment, rotation, duration and any internal audits and control processes. The increasing trend in corporate social responsibility - especially in the energy sector being one of the biggest sectors surveyed - should have further effects on the companies' disclosure practices and improve results.

The testing of certain hypothesis in the last section of this survey clearly showed that corporate governance disclosure is positively associated with return on equity and therefore profitability - proving one of Klapper and Love's main outcomes. Hypotheses by Newell and Wilson as well as Klapper and Love regarding the association between corporate governance disclosure and market valuation as well as findings by Chen as well as Eng and Mak concerning voluntary disclosure are disproved by this study.

The relationship between corporate governance disclosure and the companies' legal environment and market infrastructure is strikingly interesting. The weaker the legal environment, the lower the rate of disclosure. Companies disclose less if only weak legislation is imposed upon them, we assume that investors do not rely on disclosed information as their rights are less protected; thus disclosure is rendered ineffective. The better the market infrastructure, the higher the rate of disclosure. Companies in markets with less corruption and less restrictions can operate more efficient and disclose relevant information to their stakeholders.

However, there are certain problems concerning disclosure in general that require further research. The question how reliable disclosed information is and whether the lack of certain disclosure items indicates that the company did not govern them the right way remain open. In the end, we have to stress the urgent need for a reorganisation of the many different guidelines, standards and regulations with regards to corporate governance disclosure worldwide. Internationally recognized standards for corporate governance disclosure – as they exist for accounting, namely IFRS - should be established in order to give companies in emerging markets the possibility to converge, to adapt their disclosure to international standards and thereby improve their profitability and grow.

APPENDIX 1: Companies Surveyed

	ENTERPRISE	COUNTRY	SHARES	PRICE	FXRATE	CCY	Free MKT CAP	INDEX WEIGHT	Top 10 Index MKT Cap	Top 10 as % of Index total	Country Total Index MKT Cap	Top 10 as % of Country Total
1	PETROBRAS PN	**Brazil**	1'850'364'698.00	79.32	1.68	BRL	74'208	2.21%				
2	VALE DO RIO DOCE PNA	Brazil	1'919'516'400.00	48.30	1.68	BRL	55'148	1.65%				
3	BANCO BRADESCO PN	Brazil	1'024'702'861.00	51.90	1.68	BRL	30'053	0.90%				
4	BANCO ITAU HLDG FIN. PN	Brazil	1'149'864'188.00	41.41	1.68	BRL	24'075	0.72%				
5	UNIBANCO UNIT	Brazil	1'089'851'783.00	21.65	1.68	BRL	14'035	0.42%				
6	CSN SIDERURGICA NAC'L ON	Brazil	816'203'838.00	63.10	1.68	BRL	13'786	0.41%				
7	AMBEV PN	Brazil	278'161'248.00	132.50	1.68	BRL	13'154	0.39%				
8	USIMINAS PNA	Brazil	168'920'669.00	102.50	1.68	BRL	10'299	0.31%				
9	GERDAU PN	Brazil	435'986'046.00	55.20	1.68	BRL	10'021	0.30%				
10	TELE NORTE LESTE PART.PN	Brazil	261'223'463.00	42.00	1.68	BRL	6'526	0.19%	**251'305**	**7.50%**	500'364.83	**50%**
11	CHINA MOBILE	**China**	20'017'817'170.00	112.80	7.79	HKD	86'992	2.60%				
12	ICBC H	China	83'056'501'962.00	5.26	7.79	HKD	28'052	0.84%				
13	CHINA LIFE INSURANCE H	China	7'441'175'000.00	29.50	7.79	HKD	26'780	0.80%				
14	PETROCHINA CO H	China	21'098'902'000.00	10.94	7.79	HKD	26'678	0.80%				
15	CNOOC	China	44'099'920'838.00	13.26	7.79	HKD	26'283	0.78%				
16	CHINA CONSTRUCTION BK H	China	224'689'084'000.00	5.73	7.79	HKD	19'840	0.59%				
17	CHINA PETRO & CHEM H	China	16'780'490'000.00	7.64	7.79	HKD	16'464	0.49%				
18	CHINA SHENHUA ENERGY H	China	3'398'582'500.00	38.20	7.79	HKD	15'839	0.47%				
19	PING AN INSURANCE H	China	2'558'643'698.00	60.65	7.79	HKD	10'961	0.33%				
20	CHINA COMMUNIC CONSTRU-H	China	4'427'500'000.00	18.92	7.79	HKD	10'220	0.30%	**268'107**	**8.00%**	475'881.73	**56%**
21	RELIANCE INDUSTRIES	**India**	1'453'648'601.00	2374.60	40.33	INR	38'515	1.15%				
22	ICICI BANK	India	1'094'552'472.00	880.30	40.33	INR	16'724	0.50%				
23	INFOSYS TECHNOLOGIES	India	571'209'862.00	1385.15	40.33	INR	15'695	0.47%				
24	HOUSING DEV FINANCE CORP	India	279'673'758.00	2533.50	40.33	INR	13'001	0.39%				
25	HDFC BANK	India	353'717'420.00	1370.55	40.33	INR	8'414	0.25%				
26	RELIANCE COMMUNICATION	India	2'058'555'886.00	539.05	40.33	INR	8'254	0.25%				
27	LARSEN & TOUBRO	India	291'037'848.00	2942.60	40.33	INR	7'220	0.22%				
28	OIL & NATURAL GAS CORP	India	2'138'872'530.00	1013.65	40.33	INR	6'451	0.19%				
29	BHARAT HEAVY ELECTRICALS	India	489'520'000.00	2015.00	40.33	INR	5'870	0.18%				
30	ITC	India	3'764'910'950.00	190.50	40.33	INR	5'157	0.15%	**125'302**	**3.74%**	239'717.98	**52%**
31	SAMSUNG ELECTRONICS CO	**Korea**	147'299'300.00	560000.00	971.30	KRW	63'694	1.90%				
32	POSCO	Korea	87'186'835.00	491500.00	971.30	KRW	37'501	1.12%				
33	KOOKMIN BANK	Korea	336'379'116.00	56400.00	971.30	KRW	19'532	0.58%				
34	SHINHAN FINANCIAL GROUP	Korea	396'199'587.00	49450.00	971.30	KRW	17'145	0.51%				
35	HYUNDAI HEAVY INDUSTRIES	Korea	76'000'000.00	366000.00	971.30	KRW	15'751	0.47%				
36	LG ELECTRONICS (NEW)	Korea	144'647'814.00	114000.00	971.30	KRW	11'035	0.33%				
37	HYUNDAI MOTOR CO	Korea	219'466'255.00	67800.00	971.30	KRW	10'724	0.32%				
38	SHINSEGAE CO	Korea	18'860'500.00	592000.00	971.30	KRW	8'621	0.26%				
39	KT&G CORP(KOREA TOBACCO)	Korea	143'442'497.00	77100.00	971.30	KRW	8'540	0.25%				
40	KEPCO KOREA ELECT. POWER	Korea	641'567'712.00	30300.00	971.30	KRW	8'006	0.24%	**200'548**	**5.98%**	442'115.47	**45%**
41	GAZPROM (USD)	**Russia**	23'673'510'000.00	13.10	1.00	USD	124'049	3.70%				
42	LUKOIL HOLDING (USD)	Russia	850'563'255.00	76.75	1.00	USD	35'904	1.07%				
43	SBERBANK RUSSIA COM(RUB)	Russia	21'586'948'000.00	78.50	23.74	RUB	28'547	0.85%				
44	NORILSK NICKEL MMC (USD)	Russia	190'627'747.00	294.80	1.00	USD	25'289	0.75%				
45	MOBILE TELESYS ADR (USD)	Russia	398'665'228.00	78.88	1.00	USD	15'723	0.47%				
46	VIMPELCOM ADR (USD)	Russia	1'025'620'000.00	32.20	1.00	USD	14'861	0.44%				
47	UNIFIED ENERGY COMN(USD)	Russia	41'041'753'984.00	1.13	1.00	USD	9'284	0.28%				
48	TATNEFT COMMON (RUB)	Russia	2'178'691'000.00	150.22	23.74	RUB	8'270	0.25%				
49	SURGUTNEFTEGAZ COMN(USD)	Russia	35'725'994'705.00	0.98	1.00	USD	6'988	0.21%				
50	NOVATEK GDR (USD)	Russia	303'630'600.00	83.10	1.00	USD	6'308	0.19%	**275'224**	**8.21%**	334'832.42	**82%**
	TOTAL LIST	**TOTAL**	**N/A**	**N/A**	**N/A**	**N/A**	**1'120'487**	**33.42%**				

APPENDIX 2: Regressions

Return on Equity (Corporate Governance Disclosure)

Regression Statistics	
Multiple R	0,399631985
R Square	0,159705723
Adjusted R Square	0,139698717
Standard Error	0,086410686
Observations	44

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,059603706	0,059603706	7,982489661	0,007197877
Residual	42	0,313605876	0,007466807		
Total	43	0,373209583			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*
RoE	0,063119207	0,064162902	0,98373367	0,330879731	-0,06636677
CGD	0,005128204	0,001815081	2,825330009	0,007197877	0,001465221

Price to Book Ratio (Corporate Governance Disclosure)

Regression Statistics	
Multiple R	0,203239856
R Square	0,041306439
Adjusted R Square	0,020908704
Standard Error	0,743281264
Observations	49

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1,11877351	1,11877351	2,025050247	0,161327994
Residual	47	25,96595075	0,552467037		
Total	48	27,08472426			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
P/B	1,40667821	0,631337541	2,228092137	0,030697342	0,136590923
CGD	-0,025098606	0,017637284	-1,423042602	0,161327994	-0,060580244

Corporate Governance Disclosure (Voluntary Disclosure)

Regression Statistics	
Multiple R	0,37697855
R Square	0,142112827
Adjusted R Square	0,106367528
Standard Error	7,189415983
Observations	26

ANOVA

	df	SS	MS	F	Significance F
Regression	1	205,4951479	205,4951479	3,975706779	0,057642964
Residual	24	1240,504852	51,68770217		
Total	25	1446			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%
CGD	29,22740559	2,777984546	10,52108286	1,80616E-10	23,49392732
Voluntary Disclosure	0,790365953	0,396388504	1,993917445	0,057642964	-0,027739704

Voluntary Disclosure (Directors Independence)

Regression Statistics	
Multiple R	0,142455717
R Square	0,020293631
Adjusted R Square	-0,020527467
Standard Error	3,664501525
Observations	26

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	6,675824176	6,675824176	0,497135843	0,487548374
Residual	24	322,2857143	13,42857143		
Total	25	328,9615385			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*
Voluntary Disclosure	5	1,638814903	3,050985191	0,005496001	1,617652303
Directors Independ.	1,285714286	1,823504886	0,705078608	0,487548374	-2,477814799

Corporate Governance Disclosure (Legal/Market/Regulatory/Informational Frameworks)

Regression Statistics	
Multiple R	0,341792964
R Square	0,11682243
Adjusted R Square	0,038317757
Standard Error	6,797058187
Observations	50

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	275	68,75	1,488095238	0,221721792
Residual	45	2079	46,2		
Total	49	2354			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*
CGD	52,78108108	7,877356239	6,700354723	2,83868E-08	36,91527142
Legal	-4,562162162	2,060438159	-2,214170876	0,031926001	-8,712097579
Market	3,124324324	1,434920255	2,177350492	0,034738078	0,234246618
Regulatory	-4,948648649	2,064145097	-2,397432553	0,020722346	-9,106050222
Inform. Framework	1,291891892	0,933544745	1,383856423	0,173228374	-0,588363716

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