

IOD DCP 76 – 77/2006 Orientation Speech
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President of IOD, Thailand, IOD associates,
DCP 76 – 77 apprentices, Ladies and Gentlemen

It is my pleasure to share my reflection on DCP program today.

I don't have to tell you that all attendance will be checked.

All material must be read before each class.

All exercises and cases should be discussed among your peers.

Examination(s) would be given and graded for quality certification.

[I am quite sure that Khun Reungjira would make sure these would happen and help out whatever she can to get you through this.]

HOWEVER, what I really like to talk about today is one little secret on how I pass the examination with the least time and minimal effort.

Something they do not teach at DCP... at least during my time.

The secret is all about people and their characters. Each and every one of us has self-interest to maximize his/her owned utility in given situation.

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The corporate governance begins inside the company when the ownership and management are separated. And the company has limited liability. In Jensen and Meckling² sense, the principal-agent problem arises when one party to act on behalf of another.

The main players in a corporation are the shareholders, management and the board of directors. Each interacts and plays “games of corporate life”. Each has different roles and fiduciary duty to work together. Each supposedly has one common goal – to optimize aggregate value of the firm and shares fairly among other stakeholders [e.g. minority shareholders, employees, suppliers, customers, bankers, regulators, community at large, etc.] in given sets of environment and constrain.

In a world of asymmetric information, uncertainty and risky, too often people do cheat, lie, or take unfair advantages illegally, immorally and/or unethically. Thus, there are always agency problem and monitoring cost.

Once you read the case study story and quickly judge these characters. You should confirm your belief with the supporting evidences [e.g. financial ratios, change in trend, general background, assumption etc.]. You should, for example, read financial statement like a novel. Who did what by how for whom and why.

Corporate executives are too smart, at least in the case study, to be caught by simple mechanic rules.

² Jensen, M and W. Meckling (1976) “Theory of the firm: Managerial behavior, agency costs and ownership structure.” *Journal of Financial Economic* 3, 305-360.

On behalf of stakeholders to reduce agency cost and information asymmetry, corporate governance, in a nutshell, is the mechanism by which each player is motivated to align the actual behaviors with the overall corporate good. In economic term, it is called an incentive compatibility problem.

In static world of the case study, this can be easily uncovered if you can look closely into the character of each individual and his/her motivation.

BUT in the real world, reading between eyes is much harder. Everything changes overtime. All people have flaws. People act dynamically different depending on their situation, judgment, motivation and emotion. One should value the trade-off between idealistic and practical goals. Sometimes the regulator and mentor overlook this and overburden us.

Matters are even more complicated if the enterprises are majority owned by family, group or state. Multiple principal-common agency issue, minority shareholders appropriation concern and political as well as personal hidden agendas are among the fine examples of ever increasing complex agency dilemma, not covered by DCP. Perhaps this is due to time and resource limitation. Transparency, freedom of press and public scrutiny may, hence, be the keys to resolve these issues.

Nevertheless, at the end of any world, “to have enterprise with integrity”, we need “people with integrity”.

Many thanks for your un-divided attention...Good nights.