The Impact of an Active Equity Market: 

*How vital for Asia?*

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**Abstract**: Through the various historical events within the global markets, a country where the equity market is on the rise is mostly recognized as an up-and-coming economy. Hence, the status of a country’s equity market is often considered the primary indicator of a country’s economic strength and development. Thus, this paper attempts to identify the impact within an economy as a result of an active equity market, where of which based on empirical evidence indicates a stronger economic stance for the firm and the country in the long-run. Particularly as financial globalization accelerates under the “globalization” theme, for developing Asia, the practice of an active equity market through the likes of IR (Investor Relations) seem to be the necessary critical mass in achieving competitiveness – South Korea being the largest beneficiary. In conclusion, the more globalization becomes a prerequisite to remain competitive, the more it is necessary for an emerging economy to pursue an active equity practice through credible IR activities (even for the likes of Japan, a developed market). Therefore, if governed well, the chance to maintain long term sustainable strategic positioning looks very plausible, which the theory of Marketing and of Strategy suggests as the ultimate goal of a competitive firm and economy.

**Keywords**: Equity market, Investor Relations, Asian Dynamism, Competitive Advantage, Marketing, Transparency, Governance, Shareholder value, Strategy

**Introduction**

This paper addresses that based on empirical evidence, within the era of globalization, countries that have an active equity market are given more opportunities than others to
improve its economic conditions – not just from the perspective of monetary gain, but also from a macro-structural basis. Indeed the opportunities will differ depending on the details of the individual economies. Nevertheless, based on the experience with the developing Asian economies such as South Korea (hereafter Korea), it is evident that there is more to be gained than lost from an active equity market – even in times of turmoil such as the Asian Crisis in 1997.

Before elaborating further, the conceptual understanding of an active equity market should be defined. Every country that functions under capitalism has an equity market. There will be a difference, depending on the country, as to the available variety of listed companies, the governing regulatory systems and the catalysts that initially effect the equity’s share performance; nevertheless, if the country operates under capitalism, in general, there exists an equity market. However, the significance is not in simply having an equity platform, it is in having an “active” equity practice. An active equity market is when the various listed companies of a country has an ongoing abundance of attractive catalysts for investors to consider; the more the companies and the industries of a country has stable new growth plus returns, the more investors are willing to invest in the related equities – especially long term investors. Moreover through a reliable IR practice where credible information (about the listed company) is constantly being offered (to the investor), growth in equities can be boosted; hence enabling the equity market to be “active”. Therefore, it can be concluded that an economy of an active equity market has the greater chance in boosting its brand value, fund flow and economic conditions. Whereas for the non-active equity markets, though not harmful, there is nothing significant to be gained. In short, a non-active equity presence tends to be nothing more than a symbolic outcome for the country with limited opportunities for improvement. For a long time, Korea had an equity market, however not until after the Asian Crisis in 1998 did it become active, which in the end helped in the upgrade of the Korean economy.

Given the Korean experience, perhaps other entities within Asia may also want to follow suit and enjoy the same benefits from an active equity market; especially as competition becomes extremely severe due to the intensity of globalization. Cleary, for countries within the emerging category, it can be an opportunity to establish at least the commonly known basic structures to catch-up and be on par with the leading global economies; whilst for the “developed” markets such as Japan, it is an opportunity to re-visit and refresh its already established global competitiveness.

There can be much resistance in embracing the practice of an active equity market which comes from the western countries. However, whether the non-industrial economies acknowledge the fact or not, it is evident that the active equity market which was introduced and developed by the leading western economies, without a doubt have improved the conditions of many global markets. Within the current framework of globalization, the execution of an active equity market along with a credible IR practice, look to be the long awaited opportunity that Asian countries should strongly consider. If any, the two attributes
can be the ultimate marketing tool (Kotler, 2004), with which the relevant entities can use in gaining not only growth, but long-term sustainable strategic positioning – the universally acknowledged objective of a firm and of a country in the light of global competition (Porter, 1996). In the end, once carried out, there remains the strong belief that “Asian Dynamism” will be rekindled; hence positioning Asia as the most influential contributor and beneficiary of the on-going practice of globalization.

The Equity Market Impact

The Overall Environment

Since the introduction of industrial revolution, the equity market has been known to be one of the most sufficient measures for companies to raise money. This allows businesses to be publicly traded, and raise additional financial capital for expansion by selling shares of company ownership in a public market. Moreover, history has shown that the price of stocks is an important part of the dynamics of economic activity, which can influence or be an indicator of social mood (Cesari, Amedeo De; Espenlaub, Susanne; Khursheed, Arif; Simkovic, Michael, 2010). Thus, as noted prior, an economy where the stock market is on the rise is considered to be an up-and-coming economy; where the performance of a stock market often becomes the primary indicator of a country’s economic strength and development (Singh, 2011). Whether this western concept of the “equity market” benefits all economies is a matter that needs to be realized. However, based on the above and the empirical evidence gathered from Korea, the function of the equity market can be affirmed as being instrumental in providing growth and funding for the relevant economies. Most importantly, with “globalization” being the key survival approach for majority of the global economies (since the 1990’s), the practice of an active equity market under the wing of “financial globalization”, seem to be the logical measure for an economy to pursue.

The Benefits

Within the big theme of globalization, “financial globalization” is regarded as the key topic of significance when wanting to be active in the current global markets – particularly those within the developing countries where the financial linkage with the global economies have been on the rise over the recent decades (Prasad, Rogoff, Wei and Kose, 2003). It will be further discussed, but acknowledging that there is an “equity market impact” and that this impact does generate more positive gains than losses (to the pertaining economies), the next question would be what the contents of such benefits (from having an active stock market) entail.

As mentioned, the key benefits are not just monetary (although the tangible reward does end up as being “money”). Strength in monetary wealth is definitely significant for the well-being of a nation; however, in the era of globalization and in the boom of the “internet”, countries that are able to offer “security” and “stability” in its macro-structure (befitting
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The new era), render a more sophisticated level of success to be enjoyed for the long run (Simkovic, 2009). Prasad, Rogoff, Wei and Kose (2003) point out that although it was flat during the times of the Asian crisis, from the mid 1990’s the surge in net private capital from the industrial countries to developing countries were said to have been on the rise. The reason for the rise are factors such as the stock market liberalization and privatization of state-owned companies, the growing importance of depositary receipts and cross-listings, and the emergence of the institutional investors. Thus the two following aspects can be confirmed. The first is that an active equity practice does indeed enable improvement of an economy, in particular that of the developing markets. The second, outside of the monetary gains, is the sophisticated long term benefits which come from establishing macroeconomic structures that can promote positive change and entrust “credibility” and “transparency” to the necessary parties involved. The “necessary parties” within the equity industry would be the investors (institutional or individual), corporations and the governing institutions. In consequence, with the improvement in the monetary and in the macro structure, the firm or country gets to upgrade its brand value and in turn solidify that much needed strategic positioning; hence, achieving the optimum objective of marketing and business strategy (Kotler, 2004).

The Detailed Scope

In order to gauge more in detail as to the impact coming from the equity market, the following five questions are reassessed:

i) Is globalization a positive outcome for every entity within the equity market?
ii) Within the context of globalization, what makes an equity market attractive (for the overseas investor)?
iii) Who are the investors?
iv) What kind of investor is most suitable for a developing market?
v) What is the relationship between the equity market and the marketing plus strategic stance of an economy?

Primarily for a stock market to be active, there needs to be a variety of listed companies that have an attractive merit which can motivate the investors to buy or sell its shares and become a shareholder – the "attractive merit" of a corporation here would mean a profit generating product/service owned by the company. But, the factor to note is that such attractive merits need to be credible, transparent and sustainable for a sufficient length of time (of at least more than three years). Only with such attributes can a stock market remain healthy with less speculative inflow of capital, which later can contribute in promoting long term growth to its relevant firm and economy. Gelos and Wei (2002) examined the investment behavior of international equity funds from January 1996 to December 2000 to understand whether and how their asset allocations across countries.
may be related to the transparency features of the countries. As a result, it was reaffirmed that international mutual funds, whom prioritize its stock selection criteria in transparency, tend to go to countries with a higher level of transparency. Certainly there are a group of investors, with an investment horizon of six to twelve months, referred to as “short term” investors (hedge funds) whom other than the actual share price of the stock, do not care for values such as ”transparency”. This is an investor group that simply regards the stock market as nothing more than a trading platform which generates a quick return.

Thus such a “short term” oriented group, especially from the overseas countries, are the entities that tend to be the cause of triggering speculative inflow into the stock market (such as “herding”) which will be discussed in detail later. On the other hand, for the group referred to as “long term” institutional investors whom in majority manage mutual/pension funds, are the complete opposite. For this long term group whom are mostly international (US centric) institutional investors - with an investment horizon of a minimum of three years to a maximum of ten years or more - their objective is to grow with the firm’s management and reap returns for a longer period of time which is sought to be of the highest of quality. Another matter to note is that long-term institutional investors in general tend to acquire and hold a substantial amount of shares once it decides to become a shareholder. Many have a rule of acquiring at least 5% of the outstanding shares of the pertaining entity, thus the stock must have sufficient liquidity. Shinsegae, the major Korean retailer had 10% of its shares owned by a long-term European investor for more than five years. Also Samsung Electronics had several long-term US mutual funds owning its shares from a minimum of 1 ~ 5% for over ten years. Such behavior also can take place with the short-term investors; however as the lead time to its exit strategy is a short twelve to eighteen months, there are limits in exercising the approach. The local institutional investors, at least in principal, should have the similar motives and practices as is the US institutional investors. Ironically however, based on empirical evidence from Korea, the actual proceedings of these local investors (whether long or short) seem to behave the same - either extremely passive or short term oriented. In consequence, the local Korean investors in general have a negative reputation in behaving like a short-term punter.

Again, the concept and functions of the investor types illustrated above are mostly dominated by those of the western countries - specifically that of the US. Therefore, there can be bewilderment as to the need of having to accommodate to the US oriented characteristics of the investment community. Despite the ambivalence, if it can be agreed that the competitiveness of “globalization” is to foster and to enhance the competence amongst all global entities, and if the activities of the stock market can be rendered as a part of facilitating this purpose, the establishment of the equity market in respect to the western approach may very well be a plausible decision. However, there is definitely a need to reassess whether this western-born concept of the “equity market” should be practiced exactly in the same manner in which it had been introduced. Leaving nationalism aside, no matter how successful this equity model had been in the US, every economy and every firm
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has its own set of social and business structure. Therefore it will be difficult to guarantee
the same kind of positive success.

Eventually many emerging countries mostly those of Asia, will benchmark the US
practice of the equity market; nevertheless the efforts in trying to establish a more Asian
distinctive standard may continue.

The Defaults from the Equity Market

According to Prasad, Rogoff, Wei and Kose (2003), the concerning aspects from the
practice of an active equity market are noted to be in the various forms. First, despite
the healthy state of the developing economy, the sudden withdrawal of capital by the
international investors for reason irrelevant to domestic factors. Therefore, the local
government must prepare a solid macro base structure within reason, that of which can
protect its domestic market in case of the sudden flight coming from the international
investors. Second, international investors may (together with local residents) engage
in the overthrow of the company management on the grounds of protecting minority
shareholder rights. In theory this form of an action and approach may be for the betterment
of the company and its economy, however the actual intention will be difficult to verify.
Furthermore, it is unclear as to whether the “investors” who exercise its minority-
shareholder rights are truly qualified to implement its views on the subject of managing a
company against the expertise of the actual professional business managers.

In short, there is belief that the skill sets to merely invest in a company as a
shareholder (whether major or minor) in contrast to managing a company are clearly
different. From the western perspective, the existence of a firm is to generate profits for
the sake of maximizing shareholder value; thus such a proactive execution of minority
shareholder outbreaks can occur; however for the economies such as Japan, it is quite
the opposite. Indeed Japan as a society is also changing as the characteristics of its
demographics become more flexible and open to globalization. Nevertheless, still in Japan,
the primary reason majority of the firms exist and generate profit are not for the sake of
shareholder value, but for the well-being of its employees and its local environment (Debroux,
2005) – the opposite of the western approach. Hence, for countries like Japan, although
investors and shareholders are important, the degree of its significance is relatively low
than the practices of the western countries. Prior to the Asian crisis, Korea was similar to
Japan in prioritizing the well-being of employees rather than the interest of its shareholders.
But as a means to survive and overcome the Asian crisis quickly as possible, unlike
Japan, Korea decided to simply accept the western mechanism of the equity market and
accommodate to the needs of the overseas investors. As a result, Korea did recover quickly
from the financial crisis, but with disturbing experiences from the foreign led institutional
investors - KT&G and Samsung C&T. Despite the successful recovery, many Korean
firms are questioning the relationship with its shareholders and the overseas investment
community. Third, International investors have a tendency to engage in momentum trading
and herding, which can be destructive for the developing economies. But if the market can offer “quality through transparency”, it has been affirmed that investors will no longer behave in this destructive short-term manner; Gelos and Wei (2002) document that herding is less pronounced in countries that have more transparent macroeconomic policies and corporate sectors. All in all, amongst the concerns mentioned, for the developing economies, the momentum and herding activities are assessed to be the most frequent. Claessens and Forbes (2001) denotes that financial integration exposes developing countries to the risks associated with destabilizing investor behavior such as herding, that is not related to fundamentals. Also, according to Kumar and Persaud (2001), the emerging market crises of the 1990s were said to be a time when the international investors were frequently exposed of acting in this destabilizing manner which raised concerns about excessive dependency and the volatility in the international capital flows. Herding, is defined as mimicking each other’s actions, sometimes ignoring socially valuable information. Rationalizations of herding include learning from others and incentive structures for fund managers. Herding owing to learning from others is said to occur when actions are observable but information is partly private. In such situations, it is regarded to be optimal in relying exclusively on others’ actions. Moreover, if the abilities of fund managers are unknown to investors, investors may choose to compensate managers based on relative performance. This, in turn, provides an incentive for managers to mimic the actions of their peers: fund managers do not tend to deviate too strongly from “benchmark” indices.

Discussions will continue, but unless a moderate level of macroeconomic structure which can offer transparency in its place, despite the developing country’s active equity market practice, the efforts to gain sustainable international capital will be all in vain. Hence the ongoing risk of herding remains for the developing economies.

Resolutions in Promoting an Active Equity Market Practice

It is apparent that transparency is vital for an active equity market practice in a developing country; if transparency can be secured, so will the developing market’s credibility and sustainability, which is defined as the essence of a healthy economy. As mentioned above, Gelos and Wei (2002) examined the investment behavior of international equity funds from January 1996 to December 2000 - specifically whether their asset allocations across countries may be related to the transparency features of the countries - addressing corporate transparency through an index which measures the level of financial disclosure and the availability of information about business opportunities in a country. The findings are the following:

i) International equity investment tends to avoid less transparent countries
   (relative to the prediction of an international capital asset pricing model).

ii) The tendency for international funds to engage in herding, a behavioral pattern
that is sometimes blamed for contributing to instability in developing countries’ financial markets is, in fact, related to a country’s transparency features. There is some evidence that herding by international funds is more severe in less transparent countries.

iii) Capital flight during a financial crisis tends to be more severe in less transparent developing countries.

Clearly, the work of Gelos and Wei (2002) suggest that an improvement in transparency might very well reduce the “sudden stop” phenomenon of hot money and, hence, increase the stability of the domestic financial market - particularly in a developing country. Therefore, the paper can confirm that the ideal investor for the developing economies are the “long term” institutional investor, mostly from US mutual funds. In detail, the long term mutual/pension funds are portfolios that look for credibility and sustainability for at least three years through the content of the stock it hopes to own. Naturally, transparency in the corporate governance of the company is the essence in enabling such an outcome. There are of course, uplifting of measures by the government which also plays a big role in attracting foreign mutual long funds; however with insufficient time, such a topic will have to be discussed at another opportunity. Hence from the perspective of the corporate sector, in order to attract foreign mutual long funds, the first step for the company of a developing country would have to be in communicating credible information of its business performance with the investment community. Although it is not the ultimate answer, through IR (Investor Relations) activities, the firm and, to a large degree, the stock market can establish the necessary basic structure which can enable a consistent channel of communication with the international investors. By offering such a service to the investor, transparency and trust can be improved and eventually obtained.

Therefore the paper will try to assess the positive effects of IR in regards to the equity markets, particularly that of the developing Asian countries such as Korea. Korea, like any other country, was at the verge of failure during the time of the Asian crisis back in the late 1990s. But by borrowing funds via the IMF, Korea had to open up its financial market and be more globally integrated in accordance to the standards of the US. The equity market being one of the key targets of such change in Korea, faced many challenges. Thus as a means to survive and recover, Korea adapted many measures such as an active IR policy within its leading corporations which soon spread widely. Though it was not perfect with still room for improvement, via an active IR practice, the Korean corporate sector was able to gain credibility with the international investment community which enabled its equity market to accelerate. Hence, Korea being the biggest beneficiary of IR, will be the key example that will be observed.
Rise of the Korean Equity Market

The Asian Crisis

Despite the devastating state of the Asian Crisis back in 1998, Korea overturned the dilemma and became the successful newcomer of the developing Asian economies. The study suggests that the main ammunition that enabled Korea to overcome the Asian crisis, particularly within the realm of commerce, was noted to be the practice of an active equity market.

Prior to the crisis, Korea, still being a much protected economy, due to regulatory restraints and insufficient variety of stocks followed by credibility issues (with the overseas investment community), the Korean equity market was far from being active, nor attractive. As a result of protectionism, foreign funds had limited access into Korean equities, as well as the limited impetus by the locals to participate in the Korean equity market. In terms of the business contents themselves, the major pillars of Korea such as Samsung, LG and Hyundai Group, the key Chaebols that make up more than one-tenth of its GDP, at the time were still at its early stages of significance; thus were insufficient in generating brand value, and in triggering genuine enthusiasm from the overseas equity investors (Richter, 2002). With the Asian crisis to overcome, from the government’s perspective, regulations within the domestic financial industry (including the domestic equity industry) had to be uplifted. In light of such changes in the domestic equity market, one of the first practices from the corporate sector that the likes of Samsung Group had pursued back in 1998, was to establish an official IR (Investors Relations) function within the firm.

The Benefits of IR

Back in 1998, as an effort to overcome the Asian crisis, Samsung Electronics launched the first Korean official IR dedicated function. IR being a very western approach, Samsung Electronics visited Intel, Microsoft, Toyota (US) and TSMC to learn and benchmark the IR function. From the visits with the companies, Samsung Electronics was able to learn the importance of building “trust” with the investors that of which was understood as the essence of establishing transparency. From the case of Samsung Electronics, the paper was able to discover the following:

i) Given the business content of the company is of quality or at least above average, IR, if well practiced, can be a very powerful marketing tool, which in the end can impact the overall strategic positioning of a firm (Porter, 1996).

ii) By offering and maintaining credible relations with the investment community (on a regular basis), through its IR activities the company can enhance its “brand equity”, which can snowball into solid profits and naturally enabling the entity with a stable share performance - stable share performance is when majority of the shareholders of the entity are that of the long-term institutional funds.
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Herewith, the more the company has long term institutional investors as its shareholder, less the likelihood of a sudden share price change.

iii) If a company has a stable share performance for a period of at least three years, it once again gives the investors the necessary confidence it needs in investing into the equity shares.

Clearly from the assessment illustrated above, it can be affirmed that IR is not just a mere communication tool for the firm. If practiced with discipline and consistency, the benefits it can generate go beyond the boundaries of the stock market; it can be the marketing core in establishing brand value of the firm or country and thus, the catalysts that enables long term strategic success (Kotler, 2004).

Now the issue of "disclosure" needs to be addressed when practicing IR. Indeed the objective of IR is to share information with its shareholders and the investors in general. Nevertheless, it is imperative to have discipline within the disclosure, and thus a guideline as to how much information the corporation is willing to share with the investment community. As is the case of the industrial companies such as Intel and the like, "transparency" is important, but to the degree that the strategic core of the company is protected. A top company cannot forever generate on-going acceleration in its growth. Sooner or later, growth starts to slow and although it is still a very profitable, the attractiveness of the company in regards to "growth" may start to wither. Therefore, with a credible and stable IR practice, companies such as Intel seem to have been able to protect its market presence and reputation for the long run, which in turn is the objective of "marketing" and of a successful business strategy (Kotler, 2004). In this regard, the paper can conclude that the IR practice is not only beneficial for the emerging markets, but also for the developed economies. Plus by providing consistent transparency through quality but disciplined IR activities, the likelihood of attracting long term investors is deemed very high, while avoiding the danger of attracting investors who practice "herding".

Changes in KOSPI

Prior to an active equity market, KOSPI (Korea Composite Stock Price Index) almost always remained below 1,000, peaking above 1,000 in April 1989, November 1994, and January 2000. On June 17, 1998, KOSPI recorded its largest one-day percentage gain of 8.50% (23.81 points), recovering from the bottom of the Asian financial crisis. On February 28, 2005, KOSPI closed at 1,011.36, plunging to 902.88 in April. However, unlike previous bull traps, it kept moving upward, breaking the long-standing 1,000-point resistance level. On July 24, 2007, KOSPI broke 2,000 level for the first time and on the following day (July 25), it closed at 2,004.22 (Bae and Rowley, 2001).

From a company specific basis, over the past decade names such as Samsung, Amore
and Naver Corporation are entities that have become the pillars of its industries (domestically and globally) with an active contribution to KOSPI. Around the time of the crisis in 1997, Samsung Electronics was merely a cheap Asian semiconductor manufacturer who had no concept of profitability nor shareholder return. It was all about the founding family with little significance in regards to the professional business manager; Amore was a leader in the domestic cosmetic industry, but an unknown in the global market with majority of its shares owned by the founding family; Naver Corporation, being the successful venture company, was the leader of the internet era of Korea, however it was struggling to find balance as its size grew beyond the status of a mere “venture”. Interestingly, as the Korean corporates became more globally known and with an active IR function in place, as illustrated above, KOSPI grew in size and in variety - as of March 2015, there are 760 components under KOSPI. Indeed it is difficult to assess the correlation of the growth in a stock’s share price in relation to an active IR function, nonetheless, based on the example from the Korean market, the theory does not seem too farfetched. As been the case of Samsung Electronics, when observing the growth in its share price, from the year 2000, while KOSPI doubled, the share price of Samsung Electronics grew by three fold. Similar outcomes took place at Naver Corporation and Amore Pacific. Though Amore’s share price is no longer, nevertheless in 2014 from an absolute share price basis, Amore Pacific beat Samsung Electronics; thus reaching the most expensive stock price range in Korea. Also, after having a successful presence in KOSDAQ, due to the growth in size, Naver Corporation transferred to KOSPI in 2008.

Once again with a lack of data, it is premature to justify the theory that the strong share price performance is correlated to an active IR practice. However, it will be difficult to rule out the factor completely; therefore it will be a topic that needs to be reassessed in the future. Within the Top 10 Market Cap KOSPI companies such as Samsung Electronics, Naver and Amore, its IR capabilities all differ; there are some who take the IR function seriously, but others who still take it lightly and keep it at minimum or still with no proper IR service. Amongst the quality IR focused Korean companies, what they had in common was that it all had a shareholder base whom were largely owned by long term foreign institutional investors (especially that of mutual funds). Samsung Electronics, Amore, LGHH and Naver Corporation, all whom are known for its quality IR service, simultaneously have at least 30% to slightly over 55% of its shares held by foreign institutional investors – majority by the long term foreign institutional investors such as the Capital Group in the US (Rowley and Warner, 2004). In the end, when majority of its shareholders are that of the long-term institutional fund, a sudden share price drop is very unlikely. Therefore having majority of the core Korean companies (such as Samsung) invested largely by the long term foreign institutional investors, the successful recovery from the Asian crisis for Korea seems only inevitable.
IR in Japan

Contrary to the strong "content" of the many global companies, the IR function as well as the interest in the stock market has never been a significant venue in Japan. Perhaps, Japan being a self-sufficient economy with a different philosophy in shareholder value, simply does not render a significant need to actively promote itself via the financial community – particularly in equities. As mentioned, according to Debroux (2003), in Japan it is noted that unlike the western economies, the objective of a firm is not entirely for the sake of maximizing shareholder value alone, but more for the well-being of its employees and its relevant local region; hence, the interest of shareholder value is obviously less of a priority for many Japanese' firms, which can be the reason for a passive approach in IR than the likes of Korea or the US. Moreover, in Japan, there seems to be hardly any emphasis or mention in regards to the post of an "outside director" whom in the western industrial economies, are recognized as the basic symbol of promoting shareholder value and transparency. Once again, transparency, globalization and the equity market are all western concepts. Thus, for Japan, which operates on a completely different approach and cultural base may want to take time before joining the trend – if any Korea after the crisis in 1997, had no choice but to follow the western concept. Also, with a major shift in its economic culture which accelerated the promotion of the western concepts, Korea was changing. Rather than the traditional "collective" approach, employees of the Korean firms were now thinking more in terms of the individual and thus, no longer concerned in remaining in one company until retirement. On the other hand, Japanese’ firms still have that collective approach with the idea of a "one company for life" culture. Indeed, such difference in the culture and social attitude can perhaps be the reason for the difference (Rowley and Warner, 2004). However, when observing the empirical examples thus far, as there is much more to be gained than not from an active IR and equity practice, economies and companies that hold global leadership in its content should not hesitate in being proactive. With so many globally competitive companies in Japan, given a little more effort in IR, the returns that Japan can enjoy look far greater than any other.

Conclusion

It is clear that having a mere IR function or being active in the equity market does not solve all the problems of the firm nor of the economy - particularly, as it is difficult to assess the actual relationship of the stock price movement and of the IR activity, which is an agenda that needs to be addressed in the future. Nevertheless from the case of Korea, it has been proven that if IR and the equity activities are utilized strategically, positive outcomes can be anticipated. There is however a need, based on cultural and societal differences, to readjust the IR and equity market practice more befitting to the individual Asian economies. Thus by doing so, improvements that can reassure the enhancement of "Asian Dynamism"
can be achieved when facing global competition.

With a proactive IR practice, transparency can be improved whilst credibility and sustainability reinforced, which in turn can generate a greater chance of attracting long-term institutional investors. Therefore, stable growth for the relevant entities can be achieved while eliminating destructive outcomes such as “herding” behavior.

Whether long term or short term, large or small, based on the US perspective, shareholders are not to be discriminated. But for the emerging economies, such proceedings of embracing all types of investors (according to the US) seem misleading and also damaging. Primarily, the reason Korea was able to quickly recover from the Asian crisis was due to attracting and having long term foreign institutional investors as its shareholder – rather than that of the short term momentum investors. As noted, having majority of its major companies owned by long term institutional foreign investors of close to 50%, Korea was able to recover and promote a stronger and a more stable presence in light of global competition. In consequence this eventually brought forth solid profits and an equally solid business structure.

There are still many issues to address such as the outbreaks of minority shareholders, but truly, it is evident that Korea survived the ordeal and was given another chance to become more competitive.

Despite the damaging nature, for the sake of maintaining liquidity flow within the overall global stock markets, the short-term punters should not be entirely eliminated. Through restrictions that can prohibit and control damaging behavior from the short-term overseas investors, there should be measures that should be explored.

The obvious can be in the form of taxation in regards to the length of the investment horizon of a given entity. Such protection is imperative for especially the emerging markets within Asia, that of which are known to be the frequent targets of such herding behavior – particularly the South East Asian economies, where the business contents are less competitive, being mostly that of natural resources or of cheap labor.

In terms of China, as is the case of South East Asia, the business contents and the macro structure plus transparency are still relatively weak. However, due to the proactive IR practice as well as its thriving equity market, such short term punters look to be no major threat to China. Moreover, for the developed markets in Asia, through a proper execution of a dividend policy, continuous efforts in maintaining the interests of the long term overseas institutional investor should be seriously considered. The dividend approach may raise concerns due to cultural differences. But from the US examples, it is evident that it is still very effective - keeping the stable fund flow from going elsewhere. In other words, despite the market leadership of its contents, if in an industry or in an economy where growth is starting to slow, a stable dividend policy is the most logical measure in maintaining long term investors as shareholders. In consequence, the more “stability” can be obtained from the solid share performance generated by a transparent practice of IR (along with the strong business content), higher the chance for the firm and the relevant economy
to enhance its brand equity and strategic positioning.

Without doubt, Asia has the right to study and rediscover its own set of needs and rules. However, it must acknowledge how beneficial globalization, IR, and the practice of an equity market have been within the development process. Therefore, given that there is sufficient content, there should be no reason to hesitate in becoming proactive. Particularly when activities such as IR, are clearly marketing approaches which can support in developing the brand value of the firm and of the relevant economy. For the emerging economies, having strong brand equity is vital, as it coincides with the credibility of its identity - the stepping stone in establishing a solid market presence, the ultimate goal of corporate strategy.

References


