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Enacting the rules of global finance: sovereign wealth funds and the promotion of corporate governance reform

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Abstract

In the wake of the financial crises of the last two decades, the promotion of corporate governance reform has emerged as a priority concern of the international financial community. This paper draws attention to the role played by Sovereign Wealth Funds (SWFs) in this process. It shows that SWFs' enactment of a common set of shareholder-oriented corporate governance reforms has not solely been driven from the 'outside in'—i.e. conforming to prevailing global financial norms and pressures. Indeed, various SWFs are in fact attempting to change financial best practice from the 'inside out' by promoting a transformative shareholder-value model of corporate governance throughout the companies they hold in their investment portfolios. To better elucidate the dynamics of this process, this paper looks at the experience of two SWFs in Asia and Europe. More

specifically, it will explore the corporate governance agendas of Norway's Government Pension Fund-Global and Malaysia's Khazanah Nasional Berhad.

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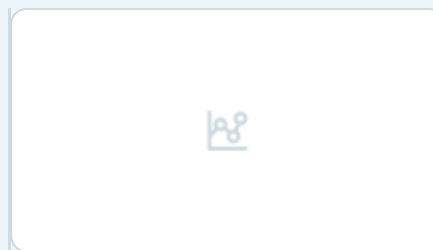
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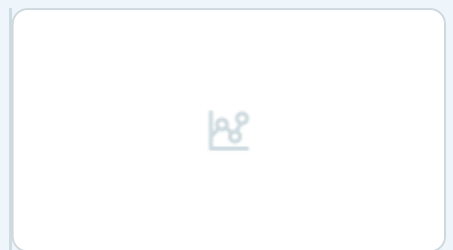
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Notes

1. At least in the early phase of his administration, it seemed as if Abdullah Badawi was genuinely concerned with reform. To this purpose, he contested the 2004 general elections, in which the ruling coalition obtained a significant majority, on an anti-corruption platform (Case [2005](#)).
2. To further strengthen the initiative, in 2005 the Putrajaya Committee on GLC High Performance (PCG) was established, named after Malaysia's new capital district and composed of the heads of Malaysia's GLICs as well as a number of government officials. It launched the GLC Transformation Manual and a number of 'how-to'-books based on the ten core thrusts of the transformation programme: (1) enhance Board effectiveness, (2) strengthen directors capabilities, (3) enhance GLIC monitoring and management functions, (4) improve regulatory environment, (5) clarify social obligations, (6) review and revamp procurement, (7) optimise capital management practices, (8) manage and develop leaders and other human capital, (9) intensify performance management practices, and finally (10) enhance operational improvement. Khazanah serves as the secretariat.
3. This includes the management of even the most transparent of SWFs, such as GPF, Alberta's Heritage Savings Trust Fund, and Ireland's National Pension Reserve Fund. Nevertheless, both GPF and Khazanah recognise the Santiago Principles, a catalogue of principles and best practices developed by the International Working Group of Sovereign Wealth Funds (International Forum of Sovereign Wealth Funds). The Santiago Principles were developed out of concerns about the transparency of SWFs and their effects on capital markets.

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