Corporate Governance Singapore-Style: Practices and Code Compliance among Smaller Listed Companies

A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Business Administration

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Declaration

I certify that:

(a) except where due acknowledgement has been made, the work is that of the candidate alone;
(b) the work has not been submitted previously, in whole or in part, to qualify for any other academic award;
(c) the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research programme;
(d) any editorial work, paid or unpaid, carried out by a third party is acknowledged; and
(e) ethics procedures and guidelines have been followed.

James C Wong
28 March 2014
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It was not unexpected that pursuing the Doctor of Business Administration (DBA) degree via RMIT University’s (RMIT) inaugural and short-lived part-time offshore programme in Singapore would present challenges. Seeing light at the end of the tunnel in my extended journey, the feeling is at once some relief and then it inevitably led to nostalgia and reminiscences. Completion of the journey from beginning to end would not have been possible without the assistance and support of many, and I wish to express my gratitude and thanksgiving especially to:

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ABSTRACT
ABSTRACT

Corporate governance Singapore-style is government-led and combines a punitive rule of law with a softer touch of non-statutory rules. One rule of relevance is the requirement to comply with the Code of Corporate Governance (the Code) or to explain non-compliance (Code compliance). The research objective in this study is to describe the corporate governance practices of, and Code compliance among, the smaller companies listed on the Singapore Exchange. Descriptions in past research were based on self-disclosures of listed companies, and theory was not considered as they were business rather than academic studies. Smaller companies had not been granted the attention they deserve in past research although they comprise more than 80% of all listed companies.

To fill these gaps, the study focused on smaller listed companies (SLCs) to collect the insiders’ views of social actors which the researcher reinterpreted to make the descriptions. Findings gathered on four research questions covered topics on attitudes and motivations; problems and difficulties; the Code’s impact on practices; and the actions and changes for improvement. The abductive research strategy along with the idealist ontology and the epistemology of constructionism consistent with the interpretivism paradigm was selected to answer the research questions. Sensitising concepts, derived from literature review of theories and a professional practice framework, were identified to guide the research and together with themes developed from research findings formed the basis for theory development.

Research findings contribute to corporate governance theory, policy, practice and future research. Regulators may find the comprehensive feedback from the social actors on the regulatory improvement actions and changes on their respective wish lists useful in future corporate governance policy deliberations. Managers in SLCs can benchmark their organisational experiences with corporate governance and Code compliance to the interpretations of the social actors for performance improvements. The methodological and theoretical considerations and further theorising on the attitudes and motivations among entrepreneurs in SLCs toward corporate governance in the study may interest academics in future research. Due to data collection difficulties, the descriptions are restricted to findings collected from a total of 24 persons of whom 21 participated in individual interviews and three in a focus group discussion, respectively. Another limitation may arise from the researcher’s reinterpretation of the social actors’ interpretations of the social reality.
INTRODUCTION
Overview of the Research and Thesis

Figure 1.1 Flow of the Introductory Discussions

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1.1 Contextual Background

This thesis submitted to satisfy the remaining Doctor of Business Administration degree requirement was focused on the corporate governance practices of, and Code compliance among, the smaller companies listed on the Singapore Exchange. Corporate governance Singapore-style is government-led and primarily achieved through a hierarchy of rules, combining firm regulatory governance backed by the heft of primary and secondary legislations with a lighter touch of non-statutory rules. Firm regulatory governance is exemplified by the punitive punishment of heavier fines and imprisonment for non-compliance with legislations such as the Companies Act and the Securities and Futures Act. Contrariwise, violations of the Singapore Exchange’s non-statutory rules in the Listing Manual face disciplinary actions ranging from reminders on the lighter end to fines, among others, with expulsion being the more punitive.
Chapter 1, Introduction

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Included in the Singapore Exchange’s non-statutory rules is the Singapore Code of Corporate Governance (hereafter, the Code) which had been incorporated into the Listing Manual, along with the requirement to comply or explain. The Corporate Governance Committee that developed the Code adopted the philosophy of comply or explain, providing for voluntary compliance and disclosures of practices with explanations on departures from Code recommendations (hereafter, Code compliance). Thereafter, the Singapore Exchange adopted the Code including the Corporate Governance Committee’s recommendation that required listed companies to disclose Code compliance in annual reports from the 1st of January 2003. Since the Code’s initial issue date in 2001, it had undergone two subsequent updates beginning with the first in 2005 and followed by the most recent modification in 2012.

1.2 Research Topic and Problem

Studies on the state of corporate governance of companies listed on the Singapore Exchange, pre- and post-Code Compliance since the 1st of January 2003, tended to share one of two, but rarely both, characteristics. In respect of the first characteristic, these studies either covered companies of all sizes or focused on just the larger ones. As to the second characteristic, the studies either investigated Code compliance with all recommendations or specific Code principles and their accompanying guidelines only. Two studies in particular shared both characteristics and which warrant specific mention; these studies are more fully explored and described later in the next section on the Literature Review. One study completed in 2007 (hereafter, the 2007 study) was commissioned by the Monetary Authority of Singapore and the Singapore Exchange; both regulators are tasked with the joint-responsibility for monitoring corporate governance in listed companies. The second of the two studies of especial relevance to this research is an annual study that computes the Governance and Transparency Index of listed companies.

Two arguments were proffered to justify the study leading to this thesis which covered only smaller listed companies, defined in this study as companies with market capitalisation of below SGD 500 million. First, smaller companies comprise the majority of all listed companies. Based on market capitalisation data on the companies listed on the Singapore Exchange, more than 80% have market capitalisation below SGD 500 million. Furthermore, the fact that past studies tended to either cover companies of all sizes or focused on just larger companies disclosed that smaller companies had yet to be afforded the emphasis they deserve. Second, while the 2007 study and the annual Governance and Transparency Index provided
comparatively more comprehensive descriptions on corporate governance among listed companies they were limited to a business study perspective only. Several observations from an examination of the two studies in particular revealed research gaps that presented an opportunity for the study underlying this thesis.

Firstly, both the 2007 study and the annual Governance and Transparency Index were business research studies and theory was therefore not a consideration in each of the studies. Secondly, the descriptions of corporate governance practices and Code compliance in both studies were based on self-disclosed information by the listed companies themselves in annual reports. Additionally, the annual Governance and Transparency Index only published information that were limited to basic index data comprising the raw scores and adjustments, plus other information highlights. Furthermore, although the 2007 study also collected data from two focus group discussions, descriptions on practices and Code compliance based on the findings gathered from this source were however, in highly summarised form. Thirdly, the total scores of listed companies in the annual Governance and Transparency Index indicated that most of the smaller listed companies lagged behind in practices and Code compliance. This observation was however, not addressed in the descriptions and although the 2007 study delved into this issue in the focus group discussions descriptions in the findings as mentioned earlier were scanty.

In summary, smaller companies with market capitalisation of less than SGD 500 million is a sizeable majority of all listings on the Singapore Exchange. Additionally and evidently, the total scores of listed companies from the published annual Governance and Transparency Index indicated that most of the smaller listed companies lag behind in practices and Code compliance. More pertinently, almost half (48%) of smaller listed companies scored 30 points and below in the 2011 Governance & Transparency Index, graded on disclosures in annual reports in the preceding calendar year. This figure rose to over 80% when the number of smaller listed companies with scores of below 50 on the 2011 Governance & Transparency Index is taken into consideration. Two among the handful of studies on the state of corporate governance of listed companies provided relatively more comprehensive descriptions but were from a business perspective and based on self-disclosures of the companies. An academic study underpinned by theory and focused on smaller listed companies is needed therefore, to provide descriptions based on insiders’ views of social actors that also address the low annual index scores.
1.3 Research Objectives and Questions

The Code is now 13 years old since it was first released in 2001 and it had been updated twice already, first in 2005 and mostly recently in 2012. Also, listed companies had been required to disclose their corporate governance practices together with departures from the Code in annual reports for 11 years already, for the calendar years from 2003 to 2013. As the preceding discussion on the research problem had established, the research objective aimed to describe the corporate governance practices, including Code compliance, of smaller listed companies from the perspective of social actors. The research gathered data to answer four ‘what’ research questions, starting on the attitude within smaller companies towards corporate governance in general and Code compliance in particular.

More specifically, research findings were sought to describe what they understand corporate governance and Code compliance to be and what motivates them to comply or explain. The next question that followed was on the issues faced by the smaller listed companies in corporate governance, in particular the problems and difficulties encountered and the more challenging Code principles and guidelines. Question three was designed to elicit answers to describe the impact of the Code in influencing corporate governance practices and compliance among smaller listed companies, comparing the pre- and post-Code states. Lastly, views were sought on the effect of stakeholders – shareholders; regulators; and various business and professional organisations – in influencing practices and Code compliance among smaller listed companies and, what further changes are needed.

1.4 Historical-Contextual Reviews

1.4.1 Corporate Governance Theory, Practice, and Research

Corporate governance, labelled a recent development in Clarke’s (2004) compilation of selected readings on the subject, is a comparatively young discipline among the social sciences. Two frequently cited pioneering work that inspired subsequent development in corporate governance theory and research only dated back to the 1930s (Durisin and Puzone, 2009). Studies surveying research in the field (Shleifer and Vishny, 1997; Denis, 2001; Tosi, 2008; Filatotchev and Boyd, 2009) consistently referred to Berle and Means’ (1932) work on corporate ownership and control (Tricker 1993). Often cited as the earliest on corporate governance and described as influential (Clarke 2004), their work led to another ground
breaking research by Chandler (1977) into the corporate manager’s ascendance. Separately, Coase (1937) initiated work on property rights (Jensen and Meckling, 1976) which Alchian (1965), Demsetz (1967) among others extended, and Jensen and Meckling (1976) drew on to theorise the firm (Denis 2001). Even so, the term corporate governance was neither found in the literature nor was it a field for serious academic research until the late 1980s (Tricker 1993).

In the journal’s inaugural editorial, Tricker (1993) attributed the launch of Corporate Governance: An International Review to events in the preceding two decades that had heightened awareness to issues in corporate governance. Commencing in the 1970s, questions were raised about corporations and society with calls for broader representation on the Board, increased corporate accountability, and stronger regulation. For example, a study committee in the UK proposed union-appointed employee representatives on the board while the EU attempted to require member states to implement the German two-tier supervisory board model. It was not until the 1980s that other developments brought about changes in the way companies were governed; one was the growth of hostile takeovers in the US in the decade’s first half. The explosions of corporate scandals in the UK, US and elsewhere as well as a heightened seriousness to study, research and teach corporate governance came in the second half. Such developments led to further evolution, and by the early 1990s were sufficient for Tricker (1993, p 2) to declare that “the concepts and practices of corporate governance [had] come of age”.

Tricker (1993) made specific reference in his editorial mentioned earlier to the development of a code of best practices (Cadbury 1992) in the UK, more commonly referred to as the Cadbury Code. Developed against a background of corporate financial scandals in the UK, the Cadbury Code contained recommended best practices to strengthen corporate governance in listed companies (Arcot and Bruno, 2006). During the 15-year period from 1993 to 2007, the Cadbury Code was among the list of the more heavily cited work on corporate governance in published research (Durisin and Puzone, 2009). Durisin and Puzone (2009) surveyed 1,000 publications and 48,000 citations in the journal, Corporate Governance: An International Review and 15 other top journals in accounting, finance and management published from 1993 to 2007. By the third five-year period in 2003-2007, the authors found collective evidence of a matured research field and confirmed sophistication, depth, rigour and intellectual consistency in corporate governance research. The evolution of corporate
governance theory, practice, and research has a short history but the governance issues linked to economic and human social activities dated back centuries.

1.4.2 Corporate Governance, Singapore-Style

“Forms of corporate governance are shaped nationally by their economic, political and legal backgrounds, by their sources of finance, and by the history and culture of the countries concerned” (Cadbury, 2004, ‘Foreword’, in Clarke (ed), 2004, p ix). Similar to other countries, Singapore’s form of corporate governance had been influenced by its economic, political and legal systems; sources of capital and funding; as well as its history and culture (Cadbury 2004). Sir Adrian Cadbury, chairman of the committee that delivered the eponymous Cadbury report (Cadbury 1992) with an accompanying code of best practices that pioneered corporate governance development worldwide had left out corporate scandals. Corporate scandals in the UK, US and elsewhere since the latter 1980s heightened interest in corporate governance (Tricker 1993) and Singapore was not spared.

Historian Gerda Lerner (cited in Lewis 1995-2009) advocated learning from the thinking, actions, problem solving and choices made by past generations. The interconnected impact of macro-environmental, historical, and cultural factors plus industry forces on Singapore’s corporate governance development at two levels is depicted in the analytical framework in Figure 2.3, Chapter 2, page 25. The evolution of Singapore’s style of corporate governance is analysed at the two levels shown in the right column of the analytical framework. To provide the historical-contextual background to the analysis in Chapter 2, an overview of Singapore’s early history is set out in the remaining paragraphs.

Most accounts of Singapore’s history, for example the oft-cited academic text by Turnbull (1989), begin with its founding by Sir Stamford Raffles in 1819. G K Tregonning, the former Raffles Professor of History at the then University of Singapore, therefore unsurprisingly asserted that “modern Singapore began in 1819” (cited in Kwa et al, 2009, pp 8, 53). Tregonning’s further declaration that earlier occurrences were not of “particular relevance to an understanding of the contemporary scene” (Kwa et al 2009, pp 8, 53) had since been challenged by Kwa and co-authors. Archaeological evidence available since 1984 pointed to pre-colonial Chinese influence 500 years earlier, coinciding with the Yuan and Ming dynasties in China and the Johor-Riau sultanate in the local region. Evidently, Singapore was already a significant centre of commerce in the 1300s, a busy port benefiting from an earlier
wave of global trade driven by the Chinese market (Kwa et al, 2009). Since its founding by Sir Stamford Raffles in 1819 however, Singapore was of strategic importance as a free port and trading base to serve British commercial interests (Gulati, 1992; Nizamuddin, 2007, Williams, 2009).

Some historians nevertheless argued that Singapore was also of strategic value to the British and others as a defence base. This had stretched from the days of the Anglo-Dutch regional rivalry in the early 19th century to the early 1900s when threats from Japanese “expansionist ambitions” emerged (Kwa et al, 2009 p 151). When the Japanese invaded Singapore on 31 January 1942, Lee Kuan Yew, a pre-university student and later prime minister viewed it as a certain presage of the British Empire’s fall (Lee, KY, 1998). The observation proved to be prescient as a post-WWII Britain, financially-weakened and saddled by domestic economic problems, soon faced decline as a global power. Two concurrent events accelerated this development: globally, the emergence of the United States as a superpower and regionally, the rise of nationalistic sentiments. Faced with the inability to maintain the British Empire, an alternative plan was to grant independence to its territories but to keep them within the realm of British influence under a commonwealth.

Described as “the British Grand Design” (Kwa et al, 2009, p 157) and in the context of Singapore, the plan entailed a political union of Southeast Asian British territories. This included Singapore, the Federation of Malaya, as well as the Borneo Territories that comprised Brunei, North Borneo and Sarawak. For Singapore, the road to this merger commenced in 1946 with first becoming a separate Crown Colony, then partial and full self-government by 1955 and 1959, respectively. After the People’s Action Party won the elections and assumed full internal self-governance from the British in 1959, Lee Kuan Yew who became prime minister was “not jubilant” (Lee, KY, 1998, p 306). The economy was too dependent on entrepot trade which had comprised about 70 percent of GDP in the British colonial days. This situation was further aggravated by high unemployment, the communist threat, and union unrest among other social problems that included a growing population. Although Singapore embarked on an industrialisation policy to diversify the economy, the government’s economic plans were limited by market size.

Singapore and Malaya, its northern neighbor, were historically governed as one British territory before Singapore became a separate Crown Colony in 1946 (Kwa et al, 2009). The government recognised the compelling economics of reunification with the Malayan
Lured by its pressing economic need for a hinterland which out-weighed residual post-union risks, Singapore joined Malaya, Sabah and Sarawak to form Malaysia in 1963 (Lee, KY, 1998, Kwa et al, 2009). However, the British grand design did not play out as it was originally intended, since not only did Brunei not join the Federation of Malaysia but Singapore was expelled two years later. Sensitive and explosive race issues surrounding racial composition and meritocracy re-surfaced which ultimately led to irreconcilable disagreements between Malaya and Singapore resulting in the latter’s ouster from Malaysia. When Singapore became independent on 9 August 1965 and once again without a hinterland, the prognosis for her survival was not encouraging (Lee, 2000). Lee Kuan Yew recalled further in the opening chapter to volume two of his memoirs almost three decades later that all the predicted doom in the foreign press only added to his gloom. The nation’s founding father and his team set out to build the new country’s own economic hinterland and to prove the prognosticators wrong.

1.5 Research Methodology

1.5.1 Research Strategy and Paradigm

Among two possible choices – induction and abduction – available to answer the research questions, the aim of the abductive research strategy was a natural fit with the research objective in this study. As Blaikie (2010, p 84) explained, the aim of the abductive research strategy is “to describe and understand social life in terms of social actors’ meanings and motives”. The descriptive aspect in the aim of the abductive research strategy comported with this study’s research objective that had been introduced earlier. To recap, it was to describe
the corporate governance practices, including Code compliance, of smaller listed companies from the perspective of social actors.

A combination of the idealist ontology and the epistemology of constructionism were adopted along with the selection of the abductive strategy. This position assumed social reality to be represented in the thinking and interpretations of social actors who construct, conceptualise and interpret their own actions and those of others, as well as social situations. Consequently, the researcher had to initially enter the world of the social actors to learn the social reality from these insiders. Transitioning to the stance of an expert in the next step, the researcher then reinterpreted the reality gathered in order to describe it in the technical language of the social scientist. In this regard and discussed in the methodological framework, the conceptual model presented in Chapter 3 comprising theory-derived sensitising concepts either incorporated into the abstract-analytical model or stand-alone were applied in data analysis.

To wrap up this discussion on research strategy and paradigm, adoption of the ontological assumptions of the idealist as well as the epistemological assumptions of constructionism was tacit embrace of the interpretivist paradigm. Under this paradigm, the approach of the interpretivist is to view social reality as a cycle of interpretations and reinterpretations. The ontology of interpretivism sees social reality as the interpretations of the social actors, that is, it is pre-interpreted even before the social scientist uncovers it. Application of these philosophical and theoretical perspectives in the reduction and analysis of the primary data collected in the research is addressed in the discussions on the methodological framework.

1.5.2 The Conceptual Model

Among the past academic researches and business studies explored and discussed in the literature review in Chapter 2, only one of them which was an academic research had considered theory. This particular academic research had adopted theory applied by a previous researcher and incorporated the hypothesis in testing the link between corporate governance practices and company performance among Singapore listed companies. The research underlying this thesis aimed to fill the gap in theory application in past academic researches and business studies on corporate governance among listed companies in Singapore.
Three sets of theory-derived sensitising concepts based on left- and right-brain theory, enterprise risk management concepts, and the use of metaphors were applied in initial theorising to build the abstract-analytical model. These three sets of sensitising concepts: left-brain, right-brain, and both brain; risks, opportunities, controls, and monitoring; and organisational sensemaking, respectively, were incorporated into the abstract-analytical model referred to as ‘approaches to risks-opportunities-controls’. The abstract-analytical model and remaining sensitising concepts derived from stewardship theory and servant leadership theory, stewards and stewardship, formed the conceptual model that provided context to the research.

1.5.3 Methodological Framework

A methodological framework incorporating research methods was built to: first determine data sources, type and form; and then select, collect, reduce and analyse the data. The constructed methodological framework presented in Table 4.1, Chapter 4, page 82 is comprised of a series of work steps from determination of data sources to data analysis. Matched against each work step are the specific objectives shown in the second column, followed by a summary of the research methods to accomplish the objectives. The research methods applied in each of the four work steps are discussed in the four corresponding sub-sections in Chapter 4.
1.6 Layout of the Thesis

The organisation of the thesis, after the Introduction chapter, is set out in two parts containing three chapters each. See Table 1.1 below.

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**INTRODUCTION**

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**PART ONE: STAGING THE RESEARCH**

**LITERATURE REVIEW, THEORY, and RESEARCH METHODOLOGY**

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**PART TWO: REPORTING THE RESEARCH**

**SINGAPORE PRAGMATISM in CORPORATE GOVERNANCE**

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1.7 Summary

Descriptions on the corporate governance practices and Code compliance of the companies listed on the Singapore Exchange in past studies had relied on the companies’ self-disclosures. The study completed for this thesis, which is submitted for the Doctor of Business Administration degree, aimed to be different in at least two ways. Firstly, it is focused on the smaller listed companies only which deserve to be given prominence since they comprise more than 80% of companies listed on Singapore Exchange. Secondly, descriptions on the corporate governance practices and Code compliance of smaller listed companies are based on the insiders’ perspectives of social actors. Besides the addition of a different study to the research literature and the contribution of new knowledge, there are two possible benefits from the research.
PART ONE:

STAGING THE RESEARCH

LITERATURE REVIEW, THEORY, AND RESEARCH METHODOLOGY
Corporate Governance Theory, Practice, and Research

Figure 2.1 Layout of the Discussions in Chapter 2

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2.1 Introduction

Part One of the thesis, comprising chapters 2 to 4, presents the literature review; theory underpinning the research; and research methodology to provide for the staging of the research. In this first of the three presentations, the aim is to discuss the combination of contextual, historical, methodological, and theoretical literature reviews (Neuman, 2003). Buck (in Merchey, 2004a), Carr and Chandler (in Seaman and Smith, 2012, pp 46 and 50, respectively), Lerner (in Lewis, 1995-2009), and Sowell (2006) had all advocated unveiling history to see forward. The advice of the novelist, three historians, and the economist, respectively, to draw on history to look forward is considered in the analysis of the literature on corporate governance theory, practice, and research.

To David Carr, a historian and philosopher (Seaman and Smith, 2012, p 46), past events inform where people and their activities had been and where they are headed. The distinguished business history scholar, Alfred D Chandler, Jr (Seaman and Smith, 2012, p 50) reminded people to know where they had been to know where they are going. Historian Gerda Lerner (in Lewis, 1995-2009) promoted learning from the thinking, actions, problem solving and choices made by past generations. Economist Thomas Sowell (2006) urged learning from
the history of economics, examining the emerging new thinking and debates among intellectuals, to obtain a deeper understanding of the existing ideas that continue to evolve.

Pearl S Buck, the prolific American novelist and 1938 Nobel Laureate in Literature summed it up concisely and precisely – searching the past is a prerequisite to understanding the present (in Merchey, 2004a). The flow of the analyses summarised in Figure 2.1 on the previous page serves as a preview to the discussions in this chapter. Analyses into the theory and practice of corporate governance, and corporate governance research in sections 2.2 and 2.3, respectively, provide the historical context to the research. Additionally, the historical-contextual analysis in section 2.3 reviews the types of studies and methodologies as well as common theories found in past research.

2.2 Corporate Governance Theory and Practice

The directors of ... companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private [co-partnery] frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. (Smith, 1776, p 576)

Adam Smith, quoted above, is acknowledged as the first to identify and describe the corporate governance conundrum (Berle and Means, 1932; Denis, 2001; Clarke, 2004; Islam et al, 2010). Corporate governance issues surfaced under laissez-faire capitalism in the days of Smith with the emergence of the corporate form of business organisation, an alternative to the pre-existing sole proprietorship and partnership organisational forms. From a functional perspective, the OECD (in Clarke, 2004, p1) defines corporate governance as how companies are structured and managed while it also entails how power is exercised in companies (Clarke, 2004). Fundamentally, corporate governance issues arise when managers are perceived to exercise their power indiscriminately and selfishly to the detriment of shareholders and other stakeholders (Rodrigues and Antonio, 2011).

Notwithstanding Smith’s (1776) early discourse on the subject matter, corporate governance theory and practice was labelled a recent development in Clarke’s (2004) compilation of
selected readings. A comparatively young discipline among the social sciences, two frequently cited pioneering works that inspired subsequent development in corporate governance theory and practice just dated back to the 1930s (Durisin and Puzone, 2009). Berle and Means’ (1932) work on corporate ownership and control (Tricker, 1993) was the earliest on corporate governance (Shleifer and Vishny, 1997; Denis, 2001; Tosi, 2008; Filatotchev and Boyd, 2009). Described as influential (Clarke, 2004), their work led to another ground breaking effort by Chandler (1977) on the corporate manager’s ascendance. Separately, Coase (1937) initiated work on property rights which Alchian (1965), Demsetz (1967) and others extended, and Jensen and Meckling (1976) applied to explain the principal-agent problem in theorising the firm (Denis, 2001).

On another note, governance issues relating to ensuring resources are allocated for intended organisational purposes and not directed elsewhere had existed ever since people organised economic activities to achieve mutual goals (Clarke, 2004). Such corporate governance issues arise in business and other organisations characterised by the separation of ownership and management, especially in big corporations (Berle and Means, 1932; Chandler, 1977). Arguably, the indiscriminate and selfish exercise of power in the corporate form of business organisation share similar characteristics reminiscent of two earlier economic systems that preceded laissez-faire capitalism. Property rights, ownership of capital, the exercise of power, and the ideas to reform the tyranny of feudalism and mercantilism provide the philosophical and theoretical foundations to corporate governance issues.

The theory and practice of corporate governance is analysed first from a big picture philosophical and theoretical perspective before narrowing down to a country view, specifically in Singapore. Presented in Figure 2.2 on the next page, sub-section 2.2.1 begins with a global view on two aspects, focusing initially on the tyrannies in the two earlier economic systems and the reformation ideas. These ideas were from the philosophical and conceptual thinking of Adam Smith and the Scottish Establishment, which Hugh Trevor-Roper (in Davidson, 2005, p 10) identified as comprising Smith and five other “intellectual pioneers”. Then the focus turns to examining the corporate governance conundrum as a new tyranny that emerged from the corporate form of business organisation and which had since evolved to a wicked problem. From a country perspective specific to the research, sub-section 2.2.2 analyses the theories underlying Singapore’s approach to regulatory governance and the practice of corporate governance Singapore-style at both the regulatory and company levels.
2.2.1 Philosophical and Theoretical Foundations of Corporate Governance

In his magnum opus the *Wealth of Nations*, Smith (1776) criticised feudalism and mercantilism as well as championed laissez-faire capitalism (Anderson and Tollison, 1984) but the economic systems shared a common theme, tyranny. Tyranny or “oppressive power”; “an oppressive, harsh, or unjust act”; and the “cruel and unfair treatment by people with power over others” (Merriam-Webster online, viewed 6 February 2014, http://www.merriam-webster.com/dictionary/tyranny) harks back to feudalism. Smith (1776) also saw tyranny continuing into capitalism where in its earliest form under the mercantile system, Smith first accused producers of oppressive power in their unfair treatment of consumers. Quoted earlier from his *Wealth of Nations*, Smith (1776) then went on to identify and describe the corporate governance conundrum, a new tyranny that emerged from the corporate form of business organisation. Although tyranny is common among the systems, Table 2.1 on the next page contrasts the different sources and exercise of power along with the oppressed and exploited powerless parties at the receiving end.

2.2.1.1 Tyranny in, and Reformation Ideas from, Feudal and Mercantile Systems

In human affairs, individuals and institutions rely on power – physical, economic and moral – to exercise authority in directing and controlling economic and social activities (Moody, 1979). John Dalrymple wrote in 1757 that “power follows property” which John Swinton
### Table 2.1 Power Execution in Economic Systems: A Comparative Analysis

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<th>Sources of Power</th>
<th>Feudalism</th>
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| Property rights | The beneficiaries were:  
(a) The king (the ultimate beneficiary);  
(b) Lords or nobles (the king’s vassals); and  
(c) Villiens (vassals to lords/nobles; may be peasants). | Commerce  
The producers, comprising of merchants and manufacturers, via ownership of capital. | Managerialism  
The rise of managerialism in the “modern corporation” led to the ascendance of the corporate managers, the “new princes” among the managerial ranks (Berle and Means, 1932, p 124). |
| Power Execution | (a) The king granted land/related property – houses, animals, and serfs (fief) – to lords (vassals) in return for loyalty and protection;  
(b) Lords/nobles sublet property to their own vassals (villiens);  
(c) Villiens subdivided property to earn rent but not to sell. | Producers lobbied the government to create a monopoly through policies centred on trade, especially international trade, via:  
(a) Import restrictions (tariffs and quotas); and  
(b) Export promotion (subsidies and tax rebates). | Managerialism created “economic” empires” in “the hands of a new form of absolutism” (Berle and Means, 1932, p 124). Consequently, some managers may act selfishly and not to the interests of shareholders and other stakeholders (Rodrigues and Antonio, 2011). |
| The Oppressed/Exploited Powerless | (a) Peasants who were freemen, cottagers and small holders made rent payments in money or produce, while those who were villiens provided military services to their lords;  
(b) Peasants who were serfs owned by the lords tilled the lord’s land; performed other services on the lord’s home, mines or roads; and made tax payments to the lords in livestock. | (a) Taxpayers taxed twice:  
(i) First, from financing the export subsidies with their tax monies; and (ii) Again, from being taxed indirectly through paying higher prices for goods at home.  
(b) Consumers denied cheaper goods from neighbouring countries.  
(c) Individuals precluded from pursuing their own best interests in production, merchandising, and moving labour across borders. | Shareholders-owners had been relegated to mere suppliers of capital. |

Sources:
apparently re-phrased later in 1765 to “power always follow property” (in Davidson, 2005, pp 53 and 50, respectively). Both Dalrymple’s and Swinton’s expressions had described the feudal system where property was central to the exercise of power by the king as well as the nobility and their own vassals. Smith (1776) criticised the feudal system’s limited property rights to the privileged few (Berle and Means, 1932) as a key reason that hampered growth and improvement in the Scottish agricultural economy (Kim, 2009). To Smith (1776, p 298), low productivity negated cheap labour, as slaves needed only to be fed but people deprived of property rights “[ate] as much” and worked “as little as possible”. Others in the Scottish Enlightenment also objected to feudalism because it had delayed the transition from agriculture to commerce (Davidson, 2005).

Since the time of mercantilism, the earliest form of capitalism (Forstater, 2007), power derived from commerce had been extended to the common people (Dalrymple, 1759, in Davidson, 2005, p 53). Smith (1776) devoted eight chapters in Book IV of the Wealth of Nations, probably the most widely read (Fetter, 1935), to confront mercantilism. This critique of mercantilism (Elmslie, 2004) was described as severely critical (Skinner, 1993); attacking violently (Endres, 1991); an assault on doctrine (Fay, 1934); and a low opinion of trade balance (Fetter, 1935). More specifically, Smith (1776) accused the producers, represented by merchants and manufacturers, as conspirators of the mercantile system solely for their own interests while totally neglecting that of consumers. He criticised mercantilism’s foreign trade restriction for hindering exercise of individual rights when it was individuals acting in their own best interests under laissez faire that created national wealth (Moody, 1979).

Smith (1776) and fellow Scottish Enlightenment intellectuals saw the private commercial sector as the emergence of economic freedom under a new morality and an alternative to feudalism (Bruyn, 1999). Marxists perceived feudalism from a political lens, a class struggle between upper class nobility landowners who exploited the social relationship with lower class peasants (Davidson, 2004a). The Scottish Enlightenment however, viewed commerce as the antidote to the feudalistic poison where the market economy was interpreted as a civil society to shield individuals from feudal rule (Bruyn, 1999). Furthermore, it was not just “philosophical and economic liberalism” (Rachleff, 2006, p 460) from feudal monarchal rule, but also from government controlled mercantilism to a civil society of free market capitalism (Bruyn, 1999). Before a commercial society could thrive however, Smith (1776) recognised the need to suppress the nobility’s power (Davidson, 2005), not through class revolution but by demanding less interference to develop capitalism (Pascal, 1938). This entailed eliminating past institutions, taxes, monopoly and privilege that mercantilists lobbied for to advance their
Corporate Governance Singapore-Style: Practices and Code Compliance among Smaller Listed Companies

vested interests, and reforming national policy to promote liberty and an efficient economy (Skinner, 1993).

Observing property rights, institutionalised by fair contractual arrangements, operating in Europe’s transition to the modern economy convinced Smith (1776) that it was a precursor to capital growth and wealth accumulation (Kim, 2009). Writing in his 1997 book on capitalism, Albert Hirschman (in Davidson 2005, p 46) interpreted the primary impact of Smith’s (1776) Wealth of Nations to be economic justification for pursuing individual self-interest. Smith (1776) based his wealth of nations theory on small businesses (Bruyn, 1999) since people were mainly employed in agriculture and handicraft was the primary industry at that time (Moody, 1979). The early brand of capitalism that began in the laissez-faire era centred on individual owners driven by the profit motive to compete in an assumed perfect market of free competition (Forstater, 2007). These individuals, who were otherwise not involved in subsistence farming, exercised liberty to pursue economic activities after their own best interests, guided by the “impersonal authority” of market competition (Moody, 1979, p 113). Found deep in his magnum opus where he critiqued mercantilism, Smith (1776, p 343) famously characterised laissez-faire capitalism which he had championed (Anderson and Tollison, 1984) as “led by an invisible hand”.

Recapping, Smith’s and fellow Scottish intellectuals’ thesis for reform involved replacing feudal and mercantilist power abuse with economic freedom and less interference for individuals to pursue capitalism and commerce under free market competition. The economic, ethical, and philosophical underpinnings to corporate governance, at both the regulatory and company levels, entailed actions summarised under the labels of economic liberalisation; property rights; individual self-interest; civil society; and self-policing. While the economic and philosophical ideas may seem intuitive under laissez-faire capitalism, the ethical and philosophical concept that civil society, self-policing, and self-interest can co-exist stretches the imagination on human nature and behaviour. In Scottish Enlightenment thought nevertheless, the market economy was intended to be self-policing with a moral life of its own where individuals accounted for their own lives and actions (Bruyn, 1999). Following the next analysis on the new tyranny and wicked problem, these ideas are revisited in the theory and practice of corporate governance, Singapore-style and Part Two on research findings and interpretation.

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Laissez-faire capitalism and the separation of ownership and management in the corporate form of business organisation, especially in big corporations, spawned the new tyranny of managerialism (Berle and Means, 1932; Chandler, 1977). The vision that Adam Smith and the Scottish Enlightenment had of the market as a civil order was shattered by the rise of power in big corporations which brought two unintended consequences. One, power in big corporations caused the consequent decline in moral standards (Bruyn, 1999), for example, the monopolistic rate fixing practices of railroads in the latter part of the nineteenth century (Clarke, 2004). Two, liberty under laissez-faire that had overturned feudalism and mercantilist monopoly in turn eliminated competition resulting in a return to governmental regulation (Bruyn, 1999; Clarke, 2004). In the example of the railroads, farmers had appealed to state legislatures and courts to curb their authority (Clarke, 2004). Power ascendance in big corporations (Bruyn, 1999) arose from technological advancements and transportation developments that replaced handicraft trade, and led to new markets and sources of raw materials, respectively (Moody, 1979; Clarke, 2004).

The corporate form of business organisation opened up property rights (Demsetz, 1967; Furubotn and Pejovich, 1972) to the general public who provided funds for corporations to invest in new technology and expand operations. Additionally, the big and modern corporations (Berle and Means, 1932) became powerful since, notwithstanding possible bankruptcy and liquidation, they had relative longevity compared to the shareholders who came and went (Davis, 2011). Smith (1776) observed that individual investors were attracted to the corporate form of business which afforded trouble-free company ownership without the hassle of running a business they might not even understand. Besides describing the corporate governance conundrum quoted earlier, Smith (1776) also cautioned that this appealing investment vehicle came with other risks some of which even extended beyond the loss of the invested sum. To Clarke (2004), Smith (1776, in Clarke, 2004, p 2) disapproved of the corporate form and viewed it with dismay, while Berle and Means (1932) described Smith’s reaction as a strong repudiation. Analyses subsequent to Smith had not been any more positive; for instance, Berle and Means (1932) concluded that the corporation was an untenable form of business organisation.

“Wicked problems” was first used by Horse Rittel to describe “the mischievous and even evil quality” of social problems (Churchman, 1967, p B-141). For example, racial discrimination (Humpage, 2005); crime, healthcare, nuclear energy, poverty, terrorism, water resources
Four of “the 10 properties of wicked problems” (Camillus, 2008, p 101), pertaining to problem identification are summarily examined to argue that the new tyranny of managerialism had evolved to a wicked problem. Summarised and combined into three short statements, these properties identify and describe wicked problems as: unique and unprecedented; complex and uncertain, and symptomatic of other problems; and characterised by diversity, conflict, and confusion. The six remaining properties which describe solutions to wicked problems as continuous and judgmental, the effectiveness of which is impossible to evaluate, and which carry unintended consequences are not evaluated. The wicked corporate governance problem that Smith (1776) first identified and described was certainly unprecedented in that it had arisen from a new form of business organisation. With the ascendance of corporate managers or managerialism (Chandler, 1977) in modern corporations (Berle and Means, 1932), the “visible hand of management” (Donaldson, 1990, p 379) replaced Smith’s (1776) invisible hand. Separation of ownership-control, together with the dispersal of ownership especially in large corporations, limited owners’ influence on management actions (Davis, 2005; Durisin and Puzone, 2009; Furubotn and Pejovich, 1972; Tosi, 2008). Additionally, unrestricted actions increased the likelihood that managers acted in their own interests rather than the owners’ (Tosi, 2008) and strayed from profit maximisation (Furubotn and Pejovich, 1972; Williamson, 1981).

Corporate governance as a wicked problem is complex in part because human nature is at the heart of the beast. In The Theory of Moral Sentiments, Smith (1759, in Skinner, 1993, pp 38-39) linked man’s mean spirited self-interest to personal ambition, an inherent human drive. Managers’ self-serving behaviour may include resting on past successes (Hicks, 1935); risk
avoidance (Fellner, 1949); and organisation slack (Cyert and March, 1963; Williamson, 1963) – all cited in Branch (1973, pp 24-25). Pursuing personal satisfaction, they avoid work (De Scitovszky, 1943; Reder 1947) and may prefer leisure to pecuniary benefits (Monsen and Downs, 1965) as well as satisficing (Radner, 1975, in Simon, 1979, p 508). Being the “administrative man” of bounded rationality the manager “satisfices” that is, settling for what is satisfactorily acceptable, for example, a price that is fair rather than maximising objectives (Simon, 1947, pp 118-9). Management present accounting results favourable to themselves (Salamon and Smith, 1979) and push more agency costs in mergers and acquisitions to owners (Kroll et al, 1990) - cited in Tosi 2008, p 158. As well, while companies pursue various social and political objectives, managers may tend towards using their positions to advance personal beliefs over and above the organisational purpose (Branch, 1973).

The remaining part of statement three that identifies and describes the wicked problem in corporate governance as uncertain and symptomatic of other problems is reflected in the proliferation of multiple theoretical perspectives. Smith’s (1776) initial identification and description; the manager’s ascendance and managerialism (Berle and Means, 1932; Chandler, 1977); and the principal-agent problem (Jensen and Meckling, 1776) had already been mentioned. Then there is also stakeholder theory discussed next in the examination of the last of four properties of wicked problems relating to diversity, conflict, and confusion. The multiplicity in theories to describe and explain the tyranny of managerialism and the wicked nature that corporate governance practice had evolved into is illustrated in Vibert (2004). In his handbook of ideas and explanations, agency theory and stakeholder theory are among 32 categories of theoretical perspectives on the organisational behaviour of firms (Vibert, 2004). Also due to multiple stakeholder demands discussed next, the practice of corporate governance had evolved to the status of a wicked problem with no one “definitive formulation” (Rittel and Webber, 1973).

Last in the four properties on problem identification are the diversity and conflict, as well as the confusion, in explaining a wicked problem arising from the multiple stakeholders involved (Rittel and Webber (1973). Confusion arises not only from the usually limited information available on wicked problems but also from the ramifications of the problems on the social system (Churchman 1967; Camillus 2008). Wicked problems typically involve multiple stakeholders with a variety of agendas and diverse values that often conflict with each other (Churchman 1967; Balram and Dragićević 2006; Camillus 2008). In a society populated with pluralistic interests, there is always room for disputes on what is universally just and equitable to satisfy all constituents (Rittel and Webber 1973). Stakeholder theory
defines another aspect of corporate governance arising from the combined economic and social roles which had since been widely expected of companies (Tricker, 1993; Cadbury, 2004). Interestingly, more than two centuries earlier Smith’s (1776) critique of the mercantilist producers’ selfish actions that exploited consumers comported with stakeholder theory which views customers as “secondary stakeholders” (Bruyn 1999, p 42).

2.2.2 Corporate Governance, Singapore-Style – Theory and Practice

*Forms of corporate governance are shaped nationally by their economic, political and legal backgrounds, by their sources of finance, and by the history and culture of the countries concerned.* (Cadbury, 2004, ‘Foreword’, in Clarke (ed), 2004, p ix)

Similar to other countries, Singapore’s form of corporate governance had been influenced by its economic, political and legal systems; sources of capital and funding; as well as its history and culture (Cadbury, 2004). History and culture are, in the words of historian Gerda Lerner (in Lewis, 1995-2009), reflected in the thinking (that is, theory), actions, problem solving and choices made (collectively, business practices) by past generations. Further and to paraphrase American author Judith A Boss (in Merchey, 2004b), theory is not at variance with practice since actions in business practice are informed by theory. Sir Adrian Cadbury, chairman of the committee that delivered the eponymous Cadbury report (Cadbury, 1992) with an accompanying code of best practices that pioneered corporate governance development worldwide had omitted one other factor. The influence of corporate scandals, which in the UK, US and elsewhere heightened interest in corporate governance (Tricker, 1993) since the latter 1980s, was also a factor in Singapore’s corporate governance development.

Summarising, the interconnected impact of macro-environmental, historical, and cultural factors as well as industry forces on Singapore’s corporate governance development at both the regulatory and company levels is depicted in Figure 2.3, next page. Singapore’s regulatory governance via a “hierarchy of rules”, comprising primary and secondary legislations as well as non-statutory rules (Corporate Finance Committee, 1998, p 22), serves to promote good practices at the company level. These rules evolved over the years in response to the nation’s economic development needs (Cadbury, 2004) and corporate scandals (Tricker, 1993). History and culture’s role (Cadbury, 2004) is reflected in Singapore leaders’ thinking, actions, problem solving, and choices made (Lerner, in Lewis 2005-2009), influenced by theory and theory informed practices (Boss, in Merchey, 2004b).
Continuing the analysis on corporate governance theory and practice, this sub-section examines the theories underlying Singapore’s approach to regulatory governance and the practice of corporate governance Singapore-style at the regulatory and company levels. The Singapore leadership operationalised its own thinking and actions, since theorised as Singapore pragmatism, to pursue the economic liberalisation ideas of Adam Smith and the Scottish Establishment. Online sources (references in brackets) provide conceptualisations of Singapore pragmatism as "utilitarianism" (Caplan, 2008); “the relentless search for best practices” (Wachter, 2009); and “what works in practice rather than abstract theory” (Friedman, 2011). It is the opposite of populism in which the Singapore government first set policies based on what is good for the country and then convince the people afterwards (Caplan, 2010).

Additionally, Singapore’s leadership had arguably operationalised different theories and theoretical perspectives from a professional practice framework to: one, develop the nation’s regulatory governance and two, influence corporate governance in business and other organisations. Besides economic liberalisation ideas, other theories included modern mercantilism (Gulati, 1992); neo-liberalism (Rachleff, 2006); and professional practice enterprise risk management concepts and techniques (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). The different theories applied in the practice of corporate governance, Singapore-style at the regulatory level are examined next under two general headings, Singapore pragmatism and economic liberalisation.
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proceeding however, some background information on the nation’s early history is necessary and useful to provide the setting to the analyses of Singapore pragmatism and economic liberalisation.

2.2.2.1 Regulatory Governance

To recap briefly, most accounts of Singapore’s history, for example the oft-cited academic text by Turnbull (1989), begin with its founding by Sir Stamford Raffles in 1819. Archaeological evidence available since 1984 pointed to pre-colonial Chinese influence 500 years earlier, coinciding with the Yuan and Ming dynasties in China and the Johor-Riau sultanate in the local region. Evidently, Singapore was already a significant centre of commerce in the 1300s, a busy port benefiting from an earlier wave of global trade driven by the Chinese market (Kwa et al, 2009). Since its founding by Sir Stamford Raffles in 1819 however, Singapore was of strategic importance as a free port and trading base to serve British commercial interests (Gulati, 1992; Nizamuddin, 2007; Williams, 2009). After World War II, Britain made Singapore a separate Crown Colony in 1946, and granted partial and full self-government by 1955 and 1959, respectively. Lacking an economic hinterland, Singapore joined Malaya, Sabah and Sarawak to form Malaysia in 1963 (Lee, KY, 1998; Kwa et al, 2009). After expulsion from the Federation of Malaysia two years later on 9 August 1965, Singapore’s founding father, Lee Kuan Yew, and his team set out to build the new country’s own economic hinterland.

2.2.2.1.1 Singapore pragmatism

At the regulatory level, Singapore pragmatism was evident in the leadership’s application of enterprise risk management concepts and techniques (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). In particular, the leadership applied the enterprise risk management concepts relating to event identification; risk assessment; risk response; and controls. Applying the first two enterprise risk management concepts, the leadership identified three risks facing the young nation at independence and all three risks were assessed to be critical. Risk A pertained to the quandary of the new nation’s economic survival without an economic hinterland following Singapore’s expulsion from Malaysia. Risk B and Risk C attributable to history and culture threatened achievement of the strategic goals and objectives spawned from Risk A.

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Risk B pertaining to Guanxi or personal relationships in business transactions, a Chinese heritage, (Lee, KY, 1998, 2000; Chen and Glen, 2004) added to the corporate governance conundrum. Examples are multiple cross-shareholdings in family business groups (Nam and Nam, 2004), and nepotism (Menkhoff and Kay, 2000; Singh, 2005, Lin and Hu, 2007) due to “Confucian values” (Sam, 2005, p 59). The ubiquity of family companies in Asia including Singapore presented a common issue, the influence of “family ethos”, compounded by Confucian values in Chinese firms (Sadleir and Pongpiajun, 2007, p 57). Good corporate governance practices, in particular, board independence and shareholder returns took a back seat, and “fear of being disrespectful or of losing face” made it difficult to implement an effective whistleblowing policy.

Risk C, the prevalent toleration of money politics accepted as common practice and part of the regional political culture (Lee, KY, 1998, 2000, 2007), also threatened regulatory governance. This risk still exists today in varying degrees in, among others, China (Huang and Rice, 2012); Indonesia (Lindsey, 2004); India (Swamy, 2011); Malaysia (Siddiquee, 2010); and the Philippines (Rama, 2012). Enterprise risk management concepts and techniques provided for four possible options as a risk response to the identified and assessed risks. Among the possible options to accept, avoid, reduce or share the risks (The Committee of Sponsoring Organizations of the Treadway Commission, 2004), the Singapore leadership opted for risk reduction.

The leadership’s risk responses were of two categories in which they were either, responses to economic development or, responses to corporate scandals. Applying the enterprise risk management concept of event identification (The Committee of Sponsoring Organizations of the Treadway Commission, 2004), the leadership recognised that the risk event in Risk A also presented opportunities. Singapore capitalised on Risk A to bring about transformational change (McNamee, 1998), turning it into economic development opportunities to build the nation’s own hinterland (Lee, 2000). The opportunities channelled to economic planning re-emerged with the strategy to “leapfrog the region”, link up with developed nations, and “create a First World oasis in a Third World region” (Lee, 2000, pp 75-6).

Responding to Risk B and Risk C to achieve comparative advantage in a region known for corruption, Singapore embraced the rule of law built on the legacy British legal system (Lee, 2000, 2007). Singapore’s first Prime Minster, Lee Kuan Yew, ensured implementation of the law under a culture of efficient, effective and honest enforcement to encourage the inflow of investments, as well as to protect investors. This action comported with the enterprise risk
management concept and practice to use controls as a risk response or risk treatment (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). In this instance, control was in the form of laws, regulations, and rules as a response to the assessed cultural risks.

Evidently, the rule of law in response to Risk B and Risk C reflected lessons from history (Lerner, in Lewis, 1995-2009) and cultural influences from Singapore’s colonial past (Lee, KY, 1998, 2000). Lee recorded his observations of the British and Japanese colonial masters since his pre-university days which had left an indelible influence on his formative thinking. In both volumes of his memoirs, he described admiration for the British’s organisation and administrative ability but resentment of the Japanese occupiers who were ruthless in ordering people around. Yet, he was vivid in recalling being awed by the Japanese’ use of power and penalties for crime to maintain discipline and order.

Residual risk is post response action after the inherent risk, the condition before risk response or treatment, had been treated by controls (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). Research confirmed that Singapore’s responses at the regulatory level to the three critical inherent risks relating to economics and culture were successful. Manufacturing activities progressed through four decades in the 1960s to 1990s from labour-intensive to skills-intensive, to capital- and knowledge-intensive, and technology-intensive (Economic Development Board, 2009). By the 2000s, economic focus was firmly entrenched on promotion of innovation and further advancement in the knowledge and research front. Singapore had emerged from the post-independence economic survival quandary in 1965 well equipped to participate in today’s global economy, where a hinterland is less crucial to its survival (Economic Review Committee, 2003).

Lee Kuan Yew credited the rule of law for Singapore’s economic development and escape from the 1997 Asian financial crisis unscathed (Lee, 2007; Li, 2007), which published research supported (Khan, 2003). Confirming indirectly, Nam and Nam (2004) concluded that the Asian financial crisis severely affected Indonesia’s, Malaysia’s, South Korea’s, and Thailand’s economies due to poor regulatory governance. Rajan and Zingales, Levine and Zervos, and Levine (all 1998, cited in La Porta et al 1998, p 1152) found developed capital markets with established financial systems and financial development enhanced economic growth. Conversely, La Porta et al’s (1997) research found significantly less developed capital markets in countries with weak investor protection regimes. La Porta et al (1998)
concluded that common law countries offered the most protection to investors and had strong enforcement.

2.2.2.1.2 Economic liberalisation

Labour historian Rachleff (2006, p 460) discussed in an article two aspects of economic liberalisation, liberation and “neo-liberalism”, and although both concepts were pertinent to Singapore’s experience the country was however not mentioned. Rachleff’s (2006) reference to liberation was in the context of the Asian economies liberated from colonialism, and which were subsequently destroyed in World War Two (WWII). These Asian nations’ liberalisation to pursue their own economic interests was reminiscent of the liberation from feudalism in the past (Rachleff, 2006) which Smith (1776) had condemned in the Wealth of Nations. To recap, Singapore’s economic liberation from British colonial rule occurred in stages, starting with partial self-government in 1955 before full self-government in 1959 (Lee, KY, 1998; Kwa et al, 2009). After a brief union with Malaysia from 1963 to 1965, the young independent nation was once again without an economic hinterland by August 1965.

Actions taken by the leadership team were evidently informed by theory, and the concept of Singapore pragmatism was just examined in conjunction with a business approach to manage the nation’s economic survival risks. Contrary to neoclassical economic thinking and dependency theory (Nizamuddin, 2007), Singapore successfully implemented modern mercantilism (Gulati, 1992) to achieve the immediate goal of building an economic hinterland. Neoclassical economic theory eschews state intervention in the economy, while dependency theory argues that state intervention harms the economy and states could be held hostage by powerful multinational corporations. Nevertheless in an initiative in which history and culture was also at play, Singapore’s state planners not only embraced the export oriented industrialisation policy but successfully implemented the policy to develop the economy.

Adoption of the export oriented industrialisation policy reflected what Lee Kwan Yew had learned from the Japanese who pioneered the policy (Lee, KY, 1998, 2000; Gulati, 1992). Successful implementation of this policy was in part enabled by the global infrastructure and linkages that the British had established (Gulati, 1992). Under Lee’s leadership however, Singapore eschewed the Japanese state intervention model and developed one of its own (Gulati, 1992, Williams, 2009). In the Singapore model, the Economic Development Board (2009) targeted multinational corporations, especially American, for foreign direct investment (Lee, 2000). The export oriented industrialisation policy contributed to East Asia’s rapid

Neo-liberalism emerged in the 1970s to counter Keynesianism’s dominance since the Great Depression and WWII (Rachleff, 2006); however, Singapore had already maintained a market friendly environment resembling neo-liberalism since the 1960s. Initially, Singapore’s first generation of leaders under the leadership of Lee Kuan Yew developed and implemented their ideas independently (Lee, KY, 1998, 2000). An example is the Industrial Relations Act 1968 which provided management control on key staffing matters with the union out of negotiation (Nizamuddin, 2007). From 1986 however, other Rachleff (2006) examples of neo-liberalism including free trade policies, harmonious three-way employee-employer-government partnership, and flexi-wage scheme incorporated ideas from consultative committees. Pursuing economic liberalisation, the Singapore model embraced fiscal and monetary policy together with tight union control to provide investors with competitive options.

2.2.2.2 Company Level Practices

Singapore’s leadership operationalised different theories and theoretical perspectives from a professional practice framework to develop the nation’s regulatory governance, and ultimately to build her own economic hinterland for longer term economic survival. The concept of Singapore pragmatism, in tandem with economic liberalisation, is arguably also evident in the Singapore leadership’s efforts to influence corporate governance practices at the company level. Three examples are presented and discussed next in this analysis as evidence to support the argument in the preceding statement. Promotion of good corporate governance practices among the companies listed on the Singapore Exchange is via, for example, the Singapore Code of Corporate Governance; the Singapore Institute of Directors; and government-linked corporations. In the following analysis, the objective and focus is on the operationalisation of Singapore pragmatism and economic liberalisation in the three examples. However, the effectiveness of these initiatives in influencing corporate governance practices at the company level as it was conceptualised and intended is assessed later in the next section on corporate governance research.

2.2.2.2.1 Code of Corporate Governance

Both the concepts of Singapore pragmatism and economic liberalisation were factors that led to the development and adoption of the Singapore Code of Corporate Governance (the
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Singapore Code) in 2001. The enterprise risk management concepts and techniques applied at the company level are events, that is, risks and opportunities, and control and monitoring (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). Three events influenced a cultural shift in the approach to a liberating disclosure-based regime at the company level (Lee, HL, 1998). First, there was a change in leadership from the first Prime Minister, Lee Kuan Yew who had served from 1965-1990, and his team to the second generation (Lee, KY, 1998, 2000). Corporate governance practices at the company level under Singapore’s first generation of leadership was a system of controls by way of a strict rule of law coupled with firm monitoring by regulatory bodies. This no-nonsense, uncompromising command and control approach was essential to pursue the opportunities to grow Singapore’s own economic hinterland and to respond to the risks of cultural barriers to good corporate governance practices.

Second, Singapore began to face a rapidly changing external environment after two decades of prosperity (Lee, KY, 1998, 2000; Montagu-Pollock, 1998). This event harked back to the theory of economic liberalisation, although in an updated 21st century version pertaining to financial deregulation. The global financial deregulation trend that ignited in the US and the UK in the 1970s had spread to other developed economies by the late 1980s and on to Asia in the 1990s. Lee Kuan Yew sat on JP Morgan’s International Council in the 1990s, and was a Senior Minister in Goh Chok Tong’s (Goh) cabinet. As such, he observed financial deregulation unfolding first hand and was able to alert Goh to the increasing external threat on Singapore competitiveness (Lee, KY, 2000; Montagu-Pollock, 1998). To respond to the risk, Goh formed the consultative Committee on Singapore’s Competitiveness (CSC) in November 1996, even before the Asian financial crisis, to map the nation’s future direction. Before the CSC reported in 1998, a Finance & Banking Competitiveness Sub-Committee recommended additional committees to look into specific financial reforms one of which would lead to development of the Singapore Code.

Third, a theory informed practice that emerged in the UK in turn inspired a global movement in the 1990s towards flexible trust-based (Morrison 2004), “self-enforcing codes of conduct” (Bruyn, 1999 p 44). This approach was reminiscent of eighteenth century Scottish philosophical thought analysed in the earlier discussion on the philosophical and theoretical foundations of corporate governance. Smith (1776) and the Scottish Establishment construed the market economy as both a civil and moral order where private businesses were the civil society, with entrepreneurs responsible for their own actions (Bruyn, 1999). The UK’s pioneering code of corporate governance (Cadbury, 1992) had since evolved into the
The financial reforms movement mentioned in event two triggered the development of the Singapore Code, especially the CSC Finance & Banking Competitiveness Sub-Committee’s recommendation to form three committees including one on corporate finance. Among two observations of this Corporate Finance Committee which directly influenced corporate governance development, one recommended a “disclosure-based philosophy of regulation” (Corporate Finance Committee, 1998, p 20). Another under “liberalisation and development” (p 43) called for development of a principles, not rules, based code of good corporate governance practices. Acting on the recommendation, the Ministry of Finance, Monetary Authority of Singapore, and Attorney-General’s Chambers jointly formed and tasked the Corporate Governance Committee to develop the Singapore Code (Corporate Governance Committee, 2000).

In its report incorporating the Singapore Code, the Corporate Governance Committee (2001) provided a transition period for listed companies to “comply” (p 3) with the principles and guidance notes. It may appear from a literal reading that the Singapore Code compliance requirement conflicted with the “voluntary nature” (p 2) of the Singapore Code. This needs to be interpreted however, in the context of the recommended “disclosure based philosophy” (Corporate Finance Committee, 1998, p 17) adopted in the Singapore Code. In this regard, the Corporate Governance Committee (2001) advocated a “balanced approach” (p 2) whereby listed companies could decide whether or not the Singapore Code prescribed corporate governance practices suited their individual situations. In developing her own code, Singapore also consulted the Combined Code (Corporate Governance Committee, 2001) and adopted its “comply or explain” philosophy (Arcot and Bruno, 2006, p 7). This decision comported with the shift in regulatory governance policy not to influence corporate governance through too much reliance on legislations (Phan and Mak, 1999) which resulted from financial reforms to remain competitive.

2.2.2.2 Singapore Institute of Directors

Two events, financial deregulation or the 21st century version of economic liberalisation and the 1997-99 Asian financial crisis, coupled with Singapore pragmatism influenced the formation of the Singapore Institute of Directors (SID). Formation of a directors’ organisation
to promote good corporate governance was first mooted publicly in March 1997 by the then Stock Exchange of Singapore president at a seminar on business ethics (Teh, 1997). Regional business collapses during the economic crisis led the then Minister of State for Communications to repeat the call for a directors’ organisation at the 24th Annual Report Awards in November (Ang, 1997). It was envisioned that the institute could shortlist, train and discipline directors, whereby listed companies, directors themselves and investors could benefit from these services (Ang, 1997).

Another source reported that the business community had appealed to the government to form an organisation to promote good corporate governance in companies (Singapore Institute of Directors, 2009). Thereafter, the governmental Feedback Unit spearheaded a pro-tem committee in February 1998 to work out the details on issues relating to the formation of a directors’ organisation (Tan, 1998a, 1998b). The SID was formally incorporated as a company limited by guaranteed in July 1998, aiming primary to work with regulators and professional bodies in promoting good corporate governance (Singapore Institute of Directors, 2009). SID’s functions include acting as a forum for regulatory feedback; providing director training; and disciplining members governed by a code of conduct (Tan, 1998c; Singapore Institute of Directors, 2009).

2.2.2.2.3 Government-linked corporations

Singapore pragmatism is also evident in the effort to influence good corporate governance practices at the company level via government-linked corporations (GLCs) held by one of its sovereign wealth funds. Singapore adopts a “government corporatist model” in which senior officers from both the civil service and military are appointed directors of GLCs (Phan and Mak, 1999, p 68) by Temasek Holdings Limited (Temasek). Among the two Singapore sovereign wealth funds, one operates like an asset management company while Temasek functions more like an equity investment firm (Elson 2008). The directors appointed to GLCs or Temasek-linked corporations (TLCs) in which Temasek has equity holdings provide corporate leadership that private corporations could emulate (Phan and Mak, 1999; Sam 2007).

2.3 Corporate Governance Research

Revisiting briefly, Smith (1776) criticised the tyranny of feudalism and mercantilism before identifying and describing the new tyranny that emerged in laissez-faire capitalism. Two
centuries on, separate ground breaking works on corporate ownership and control (Berle and Means, 1932) and the corporate managers’ ascendance (Chandler, 1977) theorised and attributed this new tyranny to managerialism. Concurrently, Alchian (1965) and Demsetz (1967) extended Coase’s (1937) initial work on property rights applied in Jensen and Meckling’s (1976) principal-agent theory, a contemporary explanation of the corporate governance conundrum. Since the time of Adam Smith, the theory and practice of corporate governance had arguably evolved to the status of Horse Rittel’s (in Churchman, 1967, p B-141) description of “wicked problems”. Among the social sciences, the research of corporate governance theory and practice is a young discipline and a recent development (Clarke, 2004). The term, corporate governance, was neither found in the literature nor was it a field for serious academic research until the late 1980s (Tricker, 1993).

In the journal’s inaugural editorial, Tricker (1993) attributed the launch of Corporate Governance: An International Review to events in the preceding two decades that had heightened awareness to issues in corporate governance. Commencing in the 1970s, questions were raised about corporations and society with calls for broader representation on the Board, increased corporate accountability, and stronger regulation. For example, a study committee in the UK proposed union-appointed employee representatives on the board while the EU attempted to require member states to implement the German two-tier supervisory board model. Developments in the 1980s however, such as the growth of hostile takeovers in the US in the decade’s first half, brought about changes in the way companies were governed. The explosions of corporate scandals in the UK, US and elsewhere, and a heightened seriousness to study, research, and teach corporate governance came in the second half.

Such developments led to further evolution, and by the early 1990s were sufficient for Tricker (1993, p 2) to declare that “the concepts and practices of corporate governance [had] come of age”. Tricker (1993) made specific reference in his editorial to the development of a code of best practices (Cadbury, 1992) in the UK, more commonly referred to as the Cadbury Code. Developed against a background of corporate financial scandals in the UK, the Cadbury Code recommended best practices to strengthen corporate governance in listed companies (Arcot and Bruno, 2006). Durisin and Puzone (2009) surveyed 1,000 publications and 48,000 citations in top accounting, finance and management journals from 1993 to 2007, and found the Cadbury Code was among the more heavily cited works. By the third five-year period in 2003-2007, the authors found collective evidence of a matured research field and confirmed sophistication, depth, rigour and intellectual consistency in corporate governance research.
Presented in Figure 2.4 below, this section examines the types of studies and the methodologies found in Singapore research and the theories commonly found in past research. The discussion in sub-section 2.3.1 first examines the types of studies and the methodologies found in Singapore academic research and business studies. In the absence of theory in the Singapore studies, which is explained later, the next sub-section in 2.3.2 reviews the theories commonly found in past global research. The primary aim is to highlight the theories frequently found in research, among the diverse theoretical perspectives that had proliferated to identify and describe the contemporary wicked nature of corporate governance practice.

2.3.1 Types of Studies and Methodologies

As depicted in Figure 2.4 above, the research analysed in this sub-section is first grouped at a high level into two types. One category contains those that provided information on the state of regulatory and corporate governance in Singapore, and in the other category are studies that attempted to link corporate governance and company performance. In Singapore, the promotion of good corporate governance practices among listed companies gained momentum in the late 1990s. Comparatively, Singapore’s response trailed the global interest that began earlier in the late 1980s to early 1990s in the US and UK, respectively. This may in part had been due to the pragmatic approach to first observe how good practices would work out in the developed economies before adoption locally. Even then, the practices would be
subjected to modification after careful consideration (Singh, 2005) and due diligence review (Wachter, 2009).

Two global practices considered and eventually adopted were a code of corporate governance along with the “comply or explain” philosophy (Arcot and Bruno, 2006, p 7), and the establishment of a directors’ organisation. Discussed and analysed earlier, these imported ideas were implemented with another Singapore-style initiative – the government-linked or Temasek-linked corporations – to influence corporate governance at the company level especially among the smaller listed companies (SLCs). For the purpose of this research, SLCs are companies listed on the Singapore Exchange with market capitalisation of less than SGD 500 million, and they comprise more than 80% of all listed companies. The effectiveness of these initiatives, as they were intended, is examined in this analysis of Singapore research on the state of corporate governance.

2.3.1.1 State of Corporate Governance

Research on the state of corporate governance in Singapore at both the regulatory and company levels are further classified in two ways to determine the types of studies and the research methods employed. The overall approach adopted to typify the research was to: first, group the research chronologically into two time periods; and second, classify them by two broad types within each of the two periods. Grouping the research chronologically in step one was based on using the effective date for compliance with the Singapore Code of Corporate Governance (the Singapore Code) as a demarcation line. In its report incorporating the Singapore Code, the Corporate Governance Committee (2001) provided a transition period for listed companies to “comply” (p 3) with the principles and guidance notes. Incorporated into the Singapore Exchange’s Listing Manual, listed companies must disclose corporate governance practices in annual reports from 1 January 2003 and explain any non-compliance from the Singapore Code (Singapore Exchange Limited, 2001).

For the purpose of a chronological demarcation and frame of reference therefore, the result in step one grouped the research into two time periods: pre- and post-Singapore Code compliance. Then in step two, the research that provided information on the state of corporate governance in Singapore was further grouped into either, academic research or, business studies. Pre-Singapore Code academic research and business studies on the state of corporate governance in Singapore are summarised in Table 2.2a/b on the following pages, followed by Table 2.3a/b presenting the post-Singapore Code picture. Research method or methods
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employed in each of the academic research and business studies are also summarised in the respective tables. The discussion and analyses of the academic research and business studies on the state of corporate governance in Singapore at the regulatory and company levels follow.

2.3.1.1.1 Pre-Singapore Code Research and Studies

2.3.1.1.1 Academic research

Pre-Singapore Code regulatory governance (Shinn, 2001; Yeo and Koh, 2001) and free market economy (Phan and Mak, 1998 and 1999; Mak and Phan, 1999) were on par with Australia, Canada, UK and US. However, the theory and practice of corporate governance in Singapore was still underdeveloped (Phan and Mak, 1998; and Phan and Mak, 1999; Mak and Phan, 1999; Chee 2004). In another article, Mak and Chng (2000) lamented the tendency of Singapore listed companies to opt for the minimum required in best practice corporate disclosures. All seven academic researches were based on literature reviews (see Table 2.2a below), and although Chee’s article was published in 2004 the contents also included review of the pre-Singapore Code literature.

Table 2.2a Pre-Singapore Code Academic Research

<table>
<thead>
<tr>
<th>Type</th>
<th>Researchers</th>
<th>Research Method/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal articles</td>
<td>Phan and Mak (1998)</td>
<td>Literature review</td>
</tr>
<tr>
<td></td>
<td>Phan and Mak (1999)</td>
<td></td>
</tr>
<tr>
<td>Conference papers</td>
<td>Mak and Phan (1999); Mak and Chng (2000); Yeo and Koh (2001)</td>
<td>Literature review</td>
</tr>
<tr>
<td>Working papers</td>
<td>Shinn (2001); Chee (2004)</td>
<td>Literature review</td>
</tr>
</tbody>
</table>

2.3.1.1.1.2 Business Studies

Table 2.2b on the next page lists four separate pre-Singapore Code business studies on the state of corporate governance in Singapore, and they are briefly examined next.

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Table 2.2b Pre-Singapore Code Business Studies

<table>
<thead>
<tr>
<th>Type</th>
<th>Researchers</th>
<th>Research Method/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion surveys of companies</td>
<td>Pricewaterhouse Coopers (1997)</td>
<td>Mailed questionnaire to all listed companies</td>
</tr>
<tr>
<td>Opinion surveys of institutional investors</td>
<td>Pricewaterhouse Coopers and Singapore Exchange Limited (2000)</td>
<td>Mailed questionnaire to senior management / investment managers</td>
</tr>
<tr>
<td>Corporate Transparency Index</td>
<td>The Business Times (Thompson, 2000a and 2000b)</td>
<td>Rated listed companies’ level of financial disclosures in earnings releases on the Corporate Transparency Index</td>
</tr>
<tr>
<td>Opinion surveys of board directors</td>
<td>Singapore Institute of Directors and Egon Zehnder International (2000); 2001, 2002: By the National University of Singapore’s Corporate Governance and Financial Reporting Centre, for four institutions</td>
<td>Mailed questionnaire to board chairmen of 391 listed companies</td>
</tr>
</tbody>
</table>

Opinion surveys of companies

In the first pre-Singapore Code business study, Pricewaterhouse Coopers (1997) assessed Singapore’s corporate governance practices to be good compared to Asian countries but they fell short against the UK and US. Based on opinion surveys of listed companies, the study gauged the state of corporate governance practices following the 1997 Asian financial crisis which observers attributed to weak corporate governance (Nam and Nam 2004). The survey was sent to all companies on the then Stock Exchange of Singapore Main Board and secondary board (then known as SESDAQ). Seventy-five companies responded, and 20% of the respondents were SESDAQ companies which fall within the definition of smaller listed companies in this research.

Opinion surveys of institutional investors

Since the preceding survey was based on the opinions of companies, a separate opinion survey of institutional investors provided an alternative view. Pricewaterhouse Coopers partnered the Singapore Exchange Limited in 1999 to survey the institutional investors’
expectations of businesses, their assessment of corporate governance in Singapore, and how this might factor into their investment decisions. A questionnaire was sent to 360 companies involved in investment activity, comprising financial institutions in banking, stockbroking, asset management, and insurance. Among 47 (13%) responses, the senior management and senior investment managers from the responding companies called for improvements to enhance disclosures, increase reporting frequency, and good corporate governance practices. Overall, the business study found company corporate governance practices in Singapore to be on par with Hong Kong and Japan but lagged behind Australia (Pricewaterhouse Coopers and the Singapore Exchange Limited, 2000).

Corporate Transparency Index

Two separate gauges which measure a narrow aspect of good corporate governance practices among listed companies were inaugurated in 2000 by various organisations with an interest in corporate governance. In the first of the two, the Singapore Business Times launched the Corporate Transparency Index (CTI) to assess the extent of financial disclosures made by listed companies in their earnings releases (Thompson, 2000a). This assessment on a narrow aspect of corporate governance practices among Singapore listed companies was from the investors’ viewpoint, and scored the means, timeliness of and content in disclosures, and its usefulness. The findings were not made available to the public, and snippets of data provided in news reports were insufficient for any meaningful analysis.

Opinion surveys of board directors

Also in 2000, the Singapore Institute of Directors inaugurated the second of the two gauges on the state of corporate governance. Fulfilling its role to promote good corporate governance among listed companies, the Singapore Institute of Directors partnered executive search firm, Egon Zehnder International to conduct the inaugural opinion survey of directors. This opinion survey focused on the board chairman and directors with the aim to gauge good board practices annually which would then serve to guide other companies. The inaugural survey which drew responses from 102 companies (the number of smaller listed companies was not disclosed) covered board matters relating to structure; practices; remuneration; selection and appointment; and terms of appointment. Findings, including the trend towards an increasing role for non-executive directors, were found to be consistent with international practices (Singapore Institute of Directors and Egon Zehnder International, 2000).

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Following the inaugural survey, the then University of Singapore (NUS) Corporate Governance and Financial Reporting Centre (NUS CGFRC) was commissioned to conduct the next two pre-Singapore Code studies. Subsequent studies were sponsored by four institutions which in addition to the two inaugural partners, Singapore Institute of Directors and Egon Zehnder International, included the Singapore Exchange and Pricewaterhouse Coopers as new partners. Reports on both the 2001 and 2002 pre-Singapore Code studies conducted by NUS CGFRC were not available on the website which referred visitors to obtain them from the Singapore Institute of Directors instead. A search on the Singapore Institute of Directors website, accessed on 15 August 2010, indicated that the annual reports were for sale only and the 2001 and 2002 reports were no longer available.

2.3.1.1.2 Post-Singapore Code Research and Studies

2.3.1.1.2.1 Academic research

Chee’s (2004) literature survey, summarised in Table 2.3a below, found a change in attitude towards corporate governance in some though not all stakeholders shortly after the Singapore Code became effective. More specifically, while attitudinal changes were evident among regulators and professional organisations the behaviour of individuals within listed companies had only shifted where they absolutely had to arising from the Singapore Code requirements. Writing for a professional journal, Mak (2005, p 61) reviewed the literature to rate the ‘comply or explain’ approach to influence corporate governance a “mixed success so far” in early post-Singapore Code days. Another post-Singapore Code academic research published in a book combined case studies with interviews of chairmen on company boards, other board members, and corporate management tasked with corporate governance (Chew et al, 2009). Among the nine case companies profiled, only one of the five examples of good corporate governance practices was in a smaller listed company while three of four bad examples were smaller listed companies.

Table 2.3a Post-Singapore Code Academic Research

<table>
<thead>
<tr>
<th>Type</th>
<th>Researchers</th>
<th>Research Method/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Journal articles</td>
<td>Chee (2004); Mak (2005)</td>
<td>Literature review</td>
</tr>
<tr>
<td>Book</td>
<td>Chew et al (2009)</td>
<td>Case studies via literature review; interviews</td>
</tr>
</tbody>
</table>
## Table 2.3b Post-Singapore Code Business Studies

<table>
<thead>
<tr>
<th>Type</th>
<th>Researchers</th>
<th>Research Method/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since 2000: Corporate Transparency Index (see Table 2.2b)</td>
<td>From 2000: The Business Times (Thompson, 2000a,b) From 2004: Association of Chartered Certified Accountants, Singapore (ACCA) (Wong, 2005) From 2006: National University of Singapore Corporate Governance and Financial Reporting Centre (NUS CGFRS) and ACCA (Mak and Phoon-cohen, 2006)</td>
<td>Rated listed companies’ level of financial disclosures in earnings releases on the Corporate Transparency Index</td>
</tr>
<tr>
<td>Since 2009: Governance and Transparency Index</td>
<td>From 2009: NUS CGFRC (Yap, 2008) From 2011: Center for Governance, Institutions and Organisations (CGIO)</td>
<td>Rated compliance with the Singapore Code and global best practices on the new Governance and Transparency Index</td>
</tr>
<tr>
<td>Singapore Code compliance</td>
<td>Ernst &amp; Young (2003)</td>
<td>Reviewed company practices disclosed in annual reports</td>
</tr>
<tr>
<td>The Singapore Corporate Governance award, launched by the Securities Investors Association (Singapore) in 2003</td>
<td>From 2003: NUS CGFRC (Khalid, 2003) From 2012: Sim Kee Boon Institute (SKBI) for Financial Economics, Spore Mgt Univ (Kwok, 2012)</td>
<td>Rated compliance with the Singapore Code on a scorecard; reviewed and selected by a panel of judges Rated company practices on the SKBI Singapore Corporate Governance Index; interviewed analysts and institutional investors</td>
</tr>
<tr>
<td>Singapore Code compliance and global good practices</td>
<td>Standard &amp; Poor’s (S&amp;P) and NUS CGFRC (2004)</td>
<td>Rated company practices on the S&amp;P corporate governance disclosure scorecard</td>
</tr>
<tr>
<td>Opinion surveys of board directors (continued from last survey in 2002, Table 2.2b)</td>
<td>2003/04, 2005, 2008/09: By the NUS CGFRC for the Singapore Institute of Directors</td>
<td>Mailed questionnaire to board chairmen of listed companies</td>
</tr>
<tr>
<td>Opinion surveys of institutional investors (continued from last survey in 2000, Table 2.2b)</td>
<td>Pricewaterhouse Coopers, Investment Association of Singapore, and NUS CGFRC (2005)</td>
<td>Mailed questionnaire to senior management/investment managers</td>
</tr>
<tr>
<td>Singapore Code compliance and global good practices</td>
<td>Mak (2007)</td>
<td>Rated company practices on a scorecard; focus groups</td>
</tr>
</tbody>
</table>
2.3.1.1.2.2 Business studies

Examined next are seven separate post-Singapore Code business studies on the state of corporate governance among listed companies in Singapore listed in Table 2.3b on the previous page.

**Governance and Transparency Index (formerly, Corporate Transparency Index)**

Post-Singapore Code, the Corporate Transparency Index (CTI) that was launched in 2000 (refer to Table 2.2b) had multiple changes throughout the years as summarised in Table 2.3b on the previous page. The CTI remained until the last scoring in 2008, and a professional accounting organisation took over from The Business Times to complete the scoring beginning in 2004. Then in 2006, the accounting organisation was joined by a university research center which led the scoring from there on. Lastly, a complete revamp of the CTI occurred with effect from 2009 when the index was upgraded to the Governance and Transparency Index (GTI) to be handled by the university research center alone. At the same time, another professional accounting organisation – CPA Australia – became the official sponsor while The Business Times which launched the initiative in 2000 continued to publish the findings.

With the complete revamp of the Corporate Transparency Index, the updated and existing Governance and Transparency Index (GTI) is a more comprehensive annual gauge of the state of corporate governance among listed companies. Table 2.4a on the next page presents a summary of the GTI scoring scheme which is comprised of a base score that reflects the four sections in the Singapore Code. The scoring scheme includes a system of bonuses to reward global best practices that go farther than what is required in the Singapore Code, and penalties for any events of corporate governance concern. Table 2.4b presented on the next page shows that the average GTI scores had improved in the past two years. On a separate note, Table 2.5 that follows further presents a more detailed analysis of the 2011 GTI scores to show in particular how smaller listed companies had performed.

Table 2.4a shows scoring on the GTI comprises two components, starting with a base score up to a maximum of 100 points for disclosures of corporate governance practices, financial transparency and investor relations. By design, companies that merely ‘tick the box’ to comply with the minimum Singapore Code requirements can only score about 30 points out of the maximum possible. The base score is then adjusted for bonuses in which companies
Table 2.4a Governance and Transparency Index Scoring Scheme

<table>
<thead>
<tr>
<th>Scoring Categories</th>
<th>Maximum Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance (75 points):</strong></td>
<td></td>
</tr>
<tr>
<td>Board Matters</td>
<td>35</td>
</tr>
<tr>
<td>Remuneration Matters</td>
<td>20</td>
</tr>
<tr>
<td>Accounting and Audit Matters</td>
<td>20</td>
</tr>
<tr>
<td><strong>Transparency (25 points):</strong></td>
<td></td>
</tr>
<tr>
<td>Transparency and Investor Relations</td>
<td>25</td>
</tr>
<tr>
<td><strong>Base Score</strong></td>
<td>100</td>
</tr>
<tr>
<td><strong>Adjustments for bonuses/penalties</strong></td>
<td>+/-</td>
</tr>
<tr>
<td><strong>Overall Governance and Transparency Score</strong></td>
<td>143</td>
</tr>
</tbody>
</table>


Table 2.4b 2009-2013 Governance and Transparency Index

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National University of Singapore Research centre (see legend below)</strong></td>
<td>CGFRC</td>
<td>CGFRC</td>
<td>CGIO</td>
<td>CGIO</td>
<td>CGIO</td>
</tr>
<tr>
<td><strong>Year Annual Report was published</strong></td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td><strong>Number of companies scored</strong></td>
<td>677</td>
<td>680</td>
<td>657</td>
<td>644</td>
<td>664</td>
</tr>
<tr>
<td><strong>Average scores</strong></td>
<td>33.9</td>
<td>33.5</td>
<td>31.5</td>
<td>34.9</td>
<td>38.0</td>
</tr>
</tbody>
</table>


**Legend:**
CGFRC – Corporate Governance and Financial Reporting Centre; and
CGIO – Centre for Governance, Institutions and Organizations.

**Note:** The CGIO was officially launched on 5th July 2011 (Director’s Message, CGIO Newsletter, Issue 1, 31 October 2012, viewed 2 March 2014, <http://bschool.nus.edu/Portals/0/images/CGIO/Newsletter/CGIO%20newsletter. html>)

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that go beyond ‘ticking the box’ are also rewarded with bonus points where they embrace good practices beyond the Singapore Code requirements. On the flip side, companies are penalised for weak practices as well as for corporate events that reflect poor corporate governance.

An analysis of the 2011 GTI scores of the smaller listed companies, compared to all companies, is presented in Table 2.5 below. More than half (56.4%) of the smaller listed companies are, by the definition of the GTI, ‘ticking the box’. There is no pass-fail indication in the GTI, but it is assumed for the purpose of this analysis that a passing grade is 50 marks and above. Alphabet grades are assumed to be allocated, as follows: F (49 and below); D - to B + (50 to 74); A - to A (75 to 84); A + (85 and above). On this basis accordingly, just 18 (3.3%) of the smaller listed companies obtained a passing grade and only two (less than half a percent) smaller listed companies are of A - grade.

Table 2.5 State of Corporate Governance in Listed Companies
By the 2011 Governance and Transparency Index (GTI) scores

<table>
<thead>
<tr>
<th>GTI Scores (a)</th>
<th>All Companies</th>
<th>Small Caps</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>%</td>
</tr>
<tr>
<td>85 and above</td>
<td>6</td>
<td>0.9</td>
</tr>
<tr>
<td>75 to 84</td>
<td>7</td>
<td>1.1</td>
</tr>
<tr>
<td>50 to 74</td>
<td>38</td>
<td>5.8</td>
</tr>
<tr>
<td>31 to 49</td>
<td>272</td>
<td>41.2</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>323</td>
<td>48.9</td>
</tr>
<tr>
<td>30 and below</td>
<td>337</td>
<td>51.1</td>
</tr>
<tr>
<td>Total</td>
<td>660</td>
<td>100</td>
</tr>
<tr>
<td>Companies with GTI scores of 50 or more</td>
<td>51</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Legend:
(a) Prepared by the Centre for Governance, Institutions and Organisations (CGIO), National University of Singapore Business School, covering annual reports released from 1 January to 31 January 2011
(b) Percentage of total small caps (< SGD 500 million)
(c) Percentage of all companies

Other Post-Singapore Business Studies

Table 2.3b listed six other post-Singapore Code business studies that updated the state of regulatory governance in Singapore as well as the state of corporate governance among companies listed on the Singapore Exchange. In 2003 itself, the year that listed companies
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had to comply with the requirements of the Singapore Code, there was a one-time only study and the launch of an annual event. The non-repeating study was conducted by an accounting firm on 30 listed companies with market capitalisation above SGD 200 million as of 31 March 2003. This study found adherence with most of the Singapore Code except in the more difficult areas of CEO duality and board assessment (Ernst & Young, 2003).

As to the launch of an annual event, the Securities Investors Association (Singapore) and partners launched the Singapore Corporate Governance Awards in 2003 to reward listed companies’ code compliance efforts and good practices that go beyond the Singapore Code (Khalid, 2003). A university research centre scores the companies’ disclosures which are reviewed by a committee of the sponsoring organisations to decide on the winners in various categories for larger and smaller listed companies. As the scores are not made available to the public, no meaningful analysis can be done on the Securities Investors Association (Singapore) study based on incomplete data found in news reports.

The year 2004 saw another one-time only study jointly conducted by Standard & Poor’s and the National University of Singapore’s Corporate Governance and Financial Reporting Centre. This was the first Singaporean study that rated 45 larger listed companies’ corporate governance practices against a ‘disclosure scorecard’ (Standard & Poor’s and Corporate Governance and Financial Reporting Centre 2004). With a total possible score of 140, the highest score in the study was 119, with the lowest score being 16. The other summary statistics from the study are: mean, 80.58; median, 92, and almost a third scored from 91 to 100 with most between 70 and 120.

Two of the post-Singapore Code business studies had continued from the inaugural surveys launched earlier in the pre-Singapore Code period and summarised in Table 2.2b. They are: first, opinion surveys of institutional investors conducted by an accounting firm, and second, opinion surveys of board directors sponsored by the Singapore Institute of Directors. In the first continuing study, the Pricewaterhouse Coopers, Investment Association of Singapore, and the Corporate Governance and Financial Reporting Centre (2005) survey of institutional investors found improvements. The findings however, also revealed that further actions were needed to strengthen practices. Additionally, most of the survey respondents felt the regulatory regime could be toughened, in particular to require mandatory compliance with the Singapore Code.

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As to the other continuing study sponsored by the Singapore Institute of Directors (SID), the 2003/04 study summarised in Table 2.3b was not available to the public. Summaries of findings from both the 2005 and 2008/09 studies were available on the SID website. The summaries indicated that the 2005 opinion survey of board members found increased awareness on the importance of corporate governance (Anandarajah, 2005). Notwithstanding the positive finding however, the updated opinion survey also disclosed that compliance with the Singapore Code was lacking in several areas, including remuneration and risk management matters (Anandarajah, 2005). In the next 2008/09 study, which was the last, there was further deterioration in the areas of board assessment and risk management (Anandarajah and Chew, 2009).

Last on the listing in Table 2.3b and certainly not the least, two public company regulators—the Monetary Authority of Singapore and the Singapore Exchange—jointly commissioned a study in 2006. The primary objective of this study was to assess the state of corporate governance practices among Singapore’s listed companies, using the Singapore Code as the benchmark. It was preceded by two events, and one was the explosion of corporate financial scandals in 2004-2005 involving Singapore companies; Table 2.6 on the next page presents a sampling of the cases. This event triggered another, which was the first update of the Singapore Code in 2005 followed by the amendments that the Singapore Exchange made to its Listing Manual to improve corporate governance. While the report did not include an overall conclusion on the state of practices, findings showed weaknesses in making difficult disclosures; director independence and training; audit committee competence; and risk management (Mak, 2007).

2.3.1.2 Linking Corporate Governance and Company Performance

Issues relating to this research puzzle, still “a legitimate and interesting area of investigation” (Lawal, 2012, p 22), are complicated and without ready answers. Consulting and ratings firms publicised the positive relationship between corporate governance and firm performance, no doubt to promote their respective agenda. McKinsey & Company paved the way with studies by Felton, Hudnut and van Heeckeren (1996); Coombes and Watson (2000); and Newell and Wilson (2002). The 2000 study was cited in the Corporate Governance Committee’s (2001) report that presented the Singapore Code of Corporate Governance, a testament to McKinsey’s pervasive influence on the concept that corporate governance pays. Since 2002, ratings firms in the US including Standard & Poor’s (Plitch, 2005) as well as Governance Metrics International, Audit Integrity, and Ethisphere (Dvorak, 2007) entered the market to
Table 2.6 Singapore’s Prominent Corporate Scandals, A Summary

(a) 1970s to 1990s

<table>
<thead>
<tr>
<th>Case No / Company / Year</th>
<th>Corporate Governance Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Slater Walker Securities, 1975</td>
<td>Insider trading, shares manipulation, and asset stripping by owner/manager (Lee KY, 2000)</td>
</tr>
<tr>
<td>2 Pan Electric Industries, 1985</td>
<td>Majority owner’s unauthorised forward contracts led to loan default; no board oversight (Ho et al, 2004; Koh, 2005a; Milner, 1985; Sullivan, 2000; Walkom, 1986)</td>
</tr>
<tr>
<td>3 Baring Futures, 1995</td>
<td>Reckless use of leverage, excessive risk taking by senior staff/rogue trader; no top oversight; lacked good process control/monitoring; incompatible functions (Behrmann, 1995; Hamilton, 1995; Koh, 2005a; Tait, 1995)</td>
</tr>
<tr>
<td>4 Amcol Holdings Ltd, 1996</td>
<td>Related party transactions by owner-manager; lacked director independence (Chia and Lor, 1996)</td>
</tr>
</tbody>
</table>

(b) 2004 to 2005 (a sampling)

<table>
<thead>
<tr>
<th>Case No / Company / Year</th>
<th>Corporate Governance Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Auston International, 2004</td>
<td>Fraudulent financial reporting by both the CEO and CFO (Koh, 2004; Quah, 2006)</td>
</tr>
<tr>
<td>2 Informatics, 2004</td>
<td>Fraudulent financial reporting by founder-chairman and CEO (Lim, 2004; Wong and Toh, 2005)</td>
</tr>
<tr>
<td>3 Accord Customer Care Solutions, 2005</td>
<td>Fraudulent financial reporting by founder who also cheated customers ((Koh, 2005b; Wong, 2006)</td>
</tr>
<tr>
<td>4 Citiraya Industries, 2005</td>
<td>A management staff, brother of the co-founder, was charged with corruption; fraudulent financial reporting by the co-founder who went into hiding (Chen, 2005; Lee SS, 2005b; Warden, 2005; Wong, 2005b, c, d)</td>
</tr>
<tr>
<td>5 China Aviation Oil, 2005</td>
<td>Fraudulent financial reporting – CEO hid trading losses; no board oversight of management – internal controls override; no authority limits for committing company; no training – inaccurate options contracts valuation (Lee SS, 2005a; Prystay, 2005; Quah, 2005a, b; Wong, 2005a)</td>
</tr>
</tbody>
</table>

(c) 2008 to 2009 (a sampling from 2009)

<table>
<thead>
<tr>
<th>Case No / Company / Year</th>
<th>Corporate Governance Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Fibrechem Technologies(Khoo, 2009a; Tan, 2009)</td>
<td>Inadequate accounting records prevented finalisation of audited financial statements</td>
</tr>
<tr>
<td>2 China Sun Bio-Chem Technology (Chan, 2009)</td>
<td>Fraudulent financial reporting (Khoo, 2009c; Khoo and Oh, 2009; Lee and Venkat, 2009; Tan, 2009).</td>
</tr>
<tr>
<td>3 Oriental Century</td>
<td>The Business Times, Singapore (27 March 2009) stated financial mismanagement; loan default (Khoo, 2009d)</td>
</tr>
<tr>
<td>4 China EnerSave</td>
<td>The Business Times (27 March 2009) reported financial mismanagement; loan default (Khoo 2009b, Tan 2009)</td>
</tr>
<tr>
<td>5 Sino-Environment Technology</td>
<td>The Business Times (27 March 2009) reported financial mismanagement; loan default (Khoo 2009b, Tan 2009)</td>
</tr>
</tbody>
</table>
provide corporate governance ratings services. Australia’s Corporate Governance
International provided ratings since 2001, which stockbroking firm Goldman Sachs JBWere
applied in establishing a positive link between corporate governance and firm performance
among listed companies (Moncrief, 2005; Gettler, 2006).

Compared to the ubiquitous positive findings among the consulting and ratings firms
however, a sample of academic studies provided a mixed view. An earlier review sample of
10 studies looked into various aspects of corporate governance, such as, board composition;
director independence; ownership composition; separation of Chairman and CEO;
shareholder rights; and transparency in disclosures. Indicators of firm performance applied
included stock market prices and various accounting measures for listed companies in
Canada; Finland; Korea; Malaysia; Nigeria; Russia; and the US, with one study on 27
countries. Studies by Black (2001); Gompers, Ishii and Metrick (2003); von Nandelstadh and
Rosenberg (2003); Durmev and Kim (2005); Chhaochharia and Grinstein (2007) confirmed
that firm performance was positively associated with corporate governance. However, an
earlier research by Donaldson and Davis (1991) and a later study by Gupta, Kennedy, and
Weaver (2006) did not find any correlation in US and Canadian listed companies,
respectively. Separately, Sanda and Mikailu (2005); Black, Jang and Kim (2006); and Tam
and Tan (2007) only established linkage on some, but not all, of the corporate governance
attributes tested.

Singaporean research is of specific interest and a search uncovered four studies completed
over three decades, the first in the late 1990s; two in the early 2000s; and one in the 2010s.
The first study (Phan and Mak, 1998, 1999; Mak and Phan, 1999) found limited to no link
between various aspects of corporate governance to firm performance in a sample of
Singaporean companies. Another test by Eng, Hong and Ho (2001) to link transparency in
financial report disclosures to different measures of the cost of capital, another indicator of
firm value, produced mixed results. The third research measured the value of corporate
governance indirectly in terms of its effect on financial reporting and audit quality (Goodwin
and Seow, 2002). With the input of directors and auditors of Singaporean listed companies,
the researchers discovered strong to weak and no influence of certain corporate governance
mechanisms on financial reporting and audit quality. In the last and latest research for a
master’s thesis, Hu (2010) found positive correlation between firm valuation and corporate
governance.

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Leighton and Thain wrote in 1997 (cited in Phan and Mak, 1998, p 227) that research had not produced evidence to link board structure to the performance of Canadian companies. Over in the US, Black (2001) referred to research from 1985 to 2000 to conclude that the correlation between various corporate governance attributes to the performance of American companies was weak to none. Subsequent commentaries and analyses on the topic either cited research findings to argue that a correlation exists (Bradley, 2004; Reilly, 2006) or it is inconclusive (Young, 2003; Quah 2005d; Murray, 2006; Mak, 2009). A sample of more recent research on companies in several developed economies published in 2012 and 2013 continue to confirm either positive or negative correlations, as well as mixed results. Lama (2012) found positive correlation among mid-sized listed companies in Australia, while Noamene and Hassairi (2012) confirmed negative results among companies in France. However, tests on companies in Japan (Sakawa and Watanabel, 2013); New Zealand (Fauzi and Locke, 2012); and the UK (Kaczmarek, Kimino and Pye, 2012) produced mixed results. Depending on the attributes tested, Vintilă and Gherghina (2012a) first confirmed negative results among companies in the US in one study but mixed results on a separate test (Vintilă and Gherghina, 2012b).

Almost three decades on and notwithstanding the “equivocal findings” (Lawal, 2012, p 22) on the widespread belief that corporate governance leads to good firm performance (Young, 2003), the topic remains popular with researchers. For instance, a search of the Business Source Complete database on the 15th of August 2013 using the search terms ‘corporate governance’ and ‘firm performance’ produced 573 results. The oldest of the scholarly, that is, peer reviewed, academic journal articles in PDF full text dated back to the 1987 Fall season with the latest in August 2013. More specifically, 28 out of 69 (41%) journal articles available on the database published from January 2012 to August 2013 were on research into the corporate governance and firm performance relationship. These studies covered 21 countries including Australia, Bangladesh, China, France, Hong Kong, India, Iran, Japan, Kuwait, Malaysia, Mexico, New Zealand, Nigeria, Pakistan, the Philippines, Thailand, Turkey, the UK, the US, Venezuela, and Vietnam. While this topic may remain a valid and intriguing area for research for some time to come (Lawal, 2012), it is also evident that it had been researched extensively and inconclusively.

Given the conflicting evidence from past studies and although written almost 15 years apart, both Phan and Mak (1998) and Lawal (2012) identified two problems that continue to plague research on the topic. These problems entail determining what constitute good corporate governance practices as well as finding better and more reliable measures of firm performance. For instance, stock market prices have proven to be especially unsuitable as a
performance measure for this purpose due to factors other than good corporate governance practices that could affect share valuation. To illustrate, consider a public spat in 2005 between two of Singapore’s three banks which are the Development Bank of Singapore (DBS); Overseas Chinese Banking Corporation (OCBC); and United Overseas Bank. DBS, a government-linked corporation, leads by example (Phan and Mak, 1998, 1999; Mak and Phan, 1999) and consistently ranks high in corporate governance compared to OCBC, family-owned and managed (Quah, 2005d; Yee, 2005a). Yet, in October 2005, the price earnings multiple of DBS at 12 times was the lowest among the three Singapore banks, while that of OCBC was 15 times (Quah, 2005d; Yee, 2005a, 2005b). The DBS CEO’s lament at a corporate governance conference that the market rewarded OCBC instead despite DBS’s better corporate governance record drew a sharp retort from an insulted OCBC Chairman the following day. By the following August however, Yee (2006) found a reversed situation when DBS assumed the leadership in share price performance among the three banks.

2.3.2 Theory in Research

It had been determined from the earlier analysis on the types of studies and methodologies that the majority of Singapore research was business studies in which theory was not a consideration. Additionally, the academic researches were focused on the survey of literature where theory was not applicable and this then leaves the two studies on linking corporate governance to company performance. In the three articles that reported the same study, Phan and Mak (1998, 1999) and Mak and Phan (1999) stated categorically that theory was not involved. This arose from difficulties in obtaining good and reliable data to advance “testable hypotheses” (Phan and Mak, 1998, p 217) and hence, the researchers offered propositions instead to be verified with available data. As for the Eng, Hong and Ho (2001) research, the researchers incorporated the hypothesis from an earlier study in 1997 for testing. In the absence of theory in Singapore research, a high level search that was not intended to be in-depth was conducted to obtain an appreciation for the theories frequently found in the literature.

Three separate database searches were carried out using the following search terms: ‘corporate governance theory’; ‘organisation theory and corporate governance’; and ‘corporate governance research’. The Business Source Premier database was searched for full text academic papers published in scholarly peer-reviewed journals from 1970 to 2010. All three searches were not designed to come up with a comprehensive list but to find a sample of articles with the primary goal to obtain an overview to accomplish two objectives. The search
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objectives were to establish: first, the corporate governance theories applied in the studies as well as the frequency; and second, the nature and purpose of each application.

The first two searches of the database for ‘corporate governance theory’ and ‘organisation theory and corporate governance’ returned 49 and 45 results, respectively. All 94 search results were reviewed to identify the general content and a total of 47 articles, comprising 27 and 20 papers each from the two respective searches met the search objectives. Unsurprisingly and perhaps even expectedly, agency theory was by far the most commonly applied in 33 of 47 studies, or 70%. The other more common corporate governance theories applied in the 47 studies that are relevant to this research are listed next in descending order according to the number of times applied.

These are: stakeholder theory (9 times or 19%); resource dependence theory and stewardship theory (each 7 times or 15%); and transaction costs (3 times or 6%). As to the nature and purpose, in 37 of the 47 studies or 78%, the corporate governance theories were applied to inform the research into various corporate governance activities and practices. Some of the more common areas the theories were applied to, by order of frequency, related to board matters; executive compensation; corporate governance structures, including codes; and external auditing. However, only 4 of the 47 studies or 9% involved application of agency theory and other corporate governance theories as the underlying foundation to develop further theories.

Results from the first two database searches are consistent with findings from separate examinations of six studies that surveyed and reviewed the literature. This sample of six studies was shortlisted from the third database search for articles on ‘corporate governance research’ that met the search objectives discussed earlier. Durisin and Puzone (2009), who conducted a comprehensive and general review of past studies from 1993-2007, found the agency approach dominating corporate governance theorising in past research. The others, Shleifer and Vishny (1997); Denis (2001); Hambrick et al (2008); Tosi (2008); as well as Filatotchev and Boyd (2009) reviewed studies conducted on specific corporate governance activities from the investor’s perspective. As such, the research in all five studies had been informed by the principal-agent relationship and together with findings in Durisin and Puzone, validates the predominance of agency theory in corporate governance research. Similar to the database search findings, Durisin and Puzone also confirmed less application of stewardship theory and stakeholder theory to underpin research as well as a lack of new theory development.
2.4 Summary and Conclusion

Corporate governance issues that emerged from the corporate form of business organisation was identified and critiqued in the *Wealth of Nations*, in which Adam Smith also condemned the tyrannies of feudalism and mercantilism. Although corporate governance practice traced back to the days of Smith in the latter 1700s, the first work closest to theorising corporate governance only emerged almost two centuries on in the early 1930s. Moreover, the corporate governance conundrum first described by Adam Smith now addressed by its contemporary ubiquitous reference to the principal-agent problem was only theorised in the late 1970s. Furthermore the term, corporate governance, did not appear in the literature until the late 1980s when the subject had developed to the level of serious study, research, and teaching.

The indiscriminate and selfish exercise of power in feudalism and mercantilism, and reformation ideas of Smith and the Scottish Establishment provided the philosophical and theoretical underpinnings to corporate governance issues under laissez-faire capitalism. Subsequent theorising two centuries after Smith first identified and described the corporate governance conundrum drew on property rights, ownership of capital, and the exercise of power inherent in feudal and mercantilist tyrannies. Smith and his fellow Scottish Establishment thinkers had envisioned the pursuit of individual self-interest under free market competition to be operationalised in the spirit of civil society and self-policing. Their vision was shattered with the rise of big corporations and power in the hands of corporate managers however, and the birth of a new tyranny of capitalism.

Nevertheless, the reformation ideas of Smith and the Scottish Establishment had lived on in at least a couple of ways. One was the concept of self-enforcement via a code of conduct to combat the principal-agent problem in the corporate form of business organisation and others characterised by the separation of ownership and control. A characteristic of wicked social problems is diversity and conflict, and self-enforcement and other demands that multiple stakeholders expect of corporate managers had elevated corporate governance practice to the status of wicked problems. Another reformation idea that had lingered on is economic liberalisation which together with the concept of civil society and self-policing had been applied in Singapore’s corporate governance at the regulatory and company levels.

Corporate governance, Singapore-style evolved over almost half a century under the influence of several factors external and internal to her operating environment. From a macro-environmental perspective which had been likened to liberation from feudalism, the evolution
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of corporate governance in Singapore began after liberation from colonialism in 1959 to pursue her own economic interest. Other factors were history and culture as reflected in the thinking or theory, and the business practices of generations past and present. Among the mix of these ideas was the collective thinking of Singapore’s first generation of leaders since theorised as her brand of pragmatism. Additionally, there were the reformation ideas of Adam Smith and his fellow Scottish Establishment thinkers, in particular the concepts of economic liberalisation as well as civil society and self-policing.

Singapore pragmatism was evident in the business-like approach to corporate governance at the regulatory level in which enterprise risk management concepts and techniques were applied to manage economic survival and cultural corruption risks. Coupling pragmatism with economic liberalisation that incorporated other theories such as modern mercantilism and neo-liberalism enabled the Singapore leadership to plant and grow the nation’s own economic hinterland. The influence of history and culture reflecting Singapore’s British and Japanese colonial past were evident in the leadership’s responses to cultural risks that threatened corporate governance at both the regulatory and company levels. Singapore’s rule of law was patterned after the English legal system and enforced with organisational and administrative efficiency and effectiveness learned from the British. Additionally, firm law enforcement was influenced by the Japanese ruthless use of power and punishment to maintain order which Lee Kwan Yuan, Singapore’s first Prime Minister, had observed as a pre-university student.

Evidence of Singapore pragmatism and economic liberalisation was also apparent in three initiatives that the Singapore leadership implemented to influence corporate governance at the company level. After two decades of growth, the Singapore economy faced challenges from the 1970s era US and UK financial deregulation that spread to other developed economies in the 1980s and Asia by the 1990s. To remain competitive, Singapore developed her own twenty-first century version of economic liberalisation that led to deregulation in the capital market and a softer approach to regulatory governance. Financial deregulation led to the Singapore Code of Corporate Governance (the Singapore Code), adopted in line with the civil society philosophy of self-disclosure and self-policing reminiscent of Adam Smith and the Scottish Establishment. Other initiatives were the establishment of the Singapore Institute of Directors to educate, train, and monitor members sitting on corporate boards, as well as the use of government-linked corporations to lead by example.

Compliance with the Singapore Code, together with the requirement to explain any non-compliance, was effective from the 1st of January 2003. Academic research prior to 1 January
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2003 revealed that Singapore’s corporate governance at the regulatory level was on par with western economies. At the company level however, academic research and business studies found that the state of corporate governance in Singapore listed companies depended on which countries the comparisons were with. Corporate governance practices were either on par with Hong Kong and Japan or better than other Asian countries, but lagged behind Australia, the UK and US. According to one academic research, Singapore listed companies tended to take the minimal disclosure approach rather than to embrace global best practices readily. In a positive sign of a change in mindset, an opinion survey of board directors discovered the role of the non-executive independent director to be increasing.

Research conducted to gauge the success of the civil society approach to influence corporate governance practices of listed companies via a code of conduct and the self-disclosure philosophy produced mixed results. Even after the implementation of the Singapore Code, the attitudes of individuals towards good corporate governance practices still varied among the different stakeholders. Regulators and professional organisations were expectedly more ready and willing to embrace the form and spirit of good practices, but the actions of individuals within corporations shifted only when left with no choice. Based on the annual Governance and Transparency Index (GTI) published for the past five years, the average GTI scores of listed companies had been trending up over the most recent three. Nevertheless, the GTI reveals that more than half of smaller listed companies with market capitalisation below SGD 500 million were merely checking the box when it came to Singapore Code compliance.

This chapter on the literature review of corporate governance theory, practice, and research is the first of three chapters in Part I of the thesis to provide for the staging of the research. Three research gaps were observed in past academic researches and business studies on the state of corporate governance in Singapore listed companies. Firstly, past academic researches and business studies were not informed by theory and secondly, they had either, covered all companies listed on the Singapore Exchange or, focused on the larger companies. Lastly, past academic researches and business studies had described the corporate governance practices of Singapore listed companies based on their self-disclosures in annual reports and other documents. To complete providing for the staging of the research, observation one on theory is first addressed next in Chapter 3 with observations two and three on research methods taken up in Chapter 4.
CHAPTER 3
THEORY UNDERPINNING THE RESEARCH

Theoretical Review and the Conceptual Model

Figure 3.1 Flow of the Theoretical Analysis

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3.1 Introduction

The literature reviews in Chapter 2 on corporate governance theory, practice, and research uncovered two findings about theory in past academic researches and business studies on corporate governance in Singapore listed companies. In the first finding, all but two of the academic researches were based on literature reviews where theory was not involved. Among the two academic researches linking corporate governance to company performance, only one had included a previous researcher’s theory (Blaikie, 2000, 2010) for testing. Researchers in the other academic study could not advance “testable hypotheses”, citing unreliable data (Phan and Mak, 1998, p 217). Secondly, none of the business studies had considered theory and database searches were conducted instead as an alternative to obtain an overview of the corporate governance theories applied in past global research.
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Among the sample of global research found in the database searches, agency theory was not unexpectedly the most frequently applied followed by stakeholder theory, resource dependence theory, stewardship theory, and transaction cost theory. To fill the gap that theory had not been applied in past research on corporate governance among Singapore listed companies, this chapter first examines the theories, concepts and ideas that underpin the research. As represented in Figure 3.1 on the preceding page that presents the flow of the discussions, the theoretical analysis begins in the next section. Continuing in section 3.3 the ultimate aim is to present the conceptual model, comprising of four sets of sensitising concepts derived from the theoretical analysis. Three among the four sets of sensitising concepts were applied in initial theorising in this chapter, which together with the remaining set of sensitising concepts was applied in the research for further theorising.

### 3.2 Theoretical Review

... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. (John Maynard Keynes, 1997, p 383).

*Time* magazine’s (31 December 1965, pp 74-82) essay on the adoption of Keynesian economics in the US attributed Keynes’s oft quoted statement above to confidence that his ideas would influence future economic policy. Sowell (2006) cited Keynes to advocate learning from emerging new thinking and debates among intellectuals, and obtaining a deeper understanding of the existing ideas that continue to evolve. Fisher (2004) quoted Keynes to debunk the not uncommon thinking of the “practical men” (Keynes, 1997, p 383) among researchers who attempt to justify that practice-oriented research can be theory free. In this regard, Judith A Boss (in Merchey, 2004b) argued forcefully that it is theory that informs practice and theory cannot be falsely separated from practice.
A corollary to Judith Boss’ assertion, which in the reverse form states that practice informs theory, is evident from the literature reviews in Chapter 2. Examples are the theory of managerialism (Chandler, 1977) and the principal-agent theory (Jensen and Meckling, 1976) derived from the research of practice to explain the corporate governance conundrum. Figure 3.2 below lists the theories, and concepts and ideas (Alvesson and Skoldberg, 2000, in Llewelyn, 2003, p 663) analysed in this chapter. Ultimately, the sensitising concepts and conceptual framework developed in sub-sections 3.3.1 and 3.3.2, respectively, are applied to analyse the findings collected from corporate governance practice.

### Figure 3.2 Flow of the Theoretical Review

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### 3.2.1 Stewardship Theory

A search of Business Source Complete, an online database on business topics, for peer reviewed academic journal articles on ‘stewardship theory’ indicated that Donaldson (1990) was the earliest on the topic. Subsequent studies published in the 1990s that cite stewardship theory and corroborate this observation include: Davis, Schoorman and Donaldson (1997); and Turnbull (1997); Muth and Donaldson (1998). The concept of ‘stewardship’ dates back much earlier however, and as a biblical term (McCann, 2010) is a common theme in several of Jesus’ parables recorded in the New Testament. An example is the parable of the unjust steward (Balaciu and Bogdan, 2012) discussed in the book of Luke, Chapter 16, verses 1-8. The biblical concept of a steward is that of a “household manager” who is neither the owner
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nor a low level servant (McCann, 2010, p 20). In this capacity, the steward is a fiduciary and has the responsibility to manage the household resources to the interests of the owner.

Donaldson (1990, pp 372, 377) refers to McGregor’s Theory X and Theory Y in the 1960 work, *The Human Side of the Enterprise*, to present stewardship theory as the antithesis to agency theory. In addition to McGregor’s theory, Burton (2000, p 198) also cited the relevance of Maslow’s (1954) and Hertzberg’s (1959) work motivators above material things. Viewed in the context of Theory X behaviour, agency theory paints the manager in a negative light (Donaldson, 1990) as one who pursues his own selfish interests and shirks responsibility to the principal-owner. Stewardship theory does not view the relationship between the parties as adversarial and portrays the agent as a good steward who exhibits Theory Y behaviour and acts in the best interest of owners. A Donaldson and Davis (1989, in Donaldson, 1990, p 377) conference paper subsequently published in Donaldson and Davis (1991) provided evidence that a combined Chairman-CEO environment removes power conflicts leading to better financial performance.

From a “theoretical paradigm” (Donaldson, 1990, p 369) perspective, Donaldson attributes the negative view and narrow description of human behavior in agency theory to its disciplinary roots in economics. Agency theory therefore, emerged from the management field of organisational economics (Barney and Ouchi, 1986, in Donaldson, 1990, p 369). Stewardship theory (Donaldson and Davis, 1989, in Donaldson, 1990, p 377; Donaldson and Davis, 1991) however, hailed from organisational behaviour research which organisational economics eschewed. Davis, Schoorman and Donaldson (1997) contrasted the dichotomy in terms of approaches, which they described as economic in nature in the case of agency theory but both sociological and psychological in stewardship theory. Fox and Hamilton (1994) applied the contrasting theories to investigate why companies diversify and found managers’ desire to maximise organisational performance, that is, stewardship to be more prevalent than the principal-agent dilemma.

Summarised in Table 3.1 on the next page is a sample of the subsequent research informed by stewardship theory following the earlier published articles of Donaldson and Davis (1991), and Fox and Hamilton (1994). While most studies on family businesses predictably focus on family members, the study of Vallejo (2009) looked into the commitment of non-family employees in family businesses. In the category under ‘theory development’, Hernandez
(2012) expanded on the concepts and ideas that underpin the psychology of stewardship. Al Mamun, Yasser and Rahman (2013) went beyond agency theory to argue for a combination of agency, stewardship, stakeholder, and institutional theories to inform corporate governance. Stewardship theory is not specifically mentioned in Clarke and Klettner (2009); however, the findings discussed and examined later in the thesis, Part Two reveals the operationalisation of the theory in Australian small companies. Shown later in Chapter 6, operationalisation of stewardship theory is common in the typical Singapore smaller listed company where the founder retains majority shareholding and remains on the management team after public listing.

Table 3.1 Stewardship Theory in Research, a Sample

<table>
<thead>
<tr>
<th>Focus of Studies</th>
<th>Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board structure and company performance</td>
<td>Muth and Donaldson (1998); Nicholson and Kiel (2007); Norberg (2009)</td>
</tr>
<tr>
<td>Family businesses</td>
<td>Le Breton-Miller and Miller (2009); Vallejo (2009); Davis, Allen, and Hayes (2010); Giovannini (2010); Eddleston, Kellermanns and Zellweger (2012)</td>
</tr>
<tr>
<td>Financial reporting (stewardship accounting)</td>
<td>Oldroyd and Miller (2011)</td>
</tr>
<tr>
<td>Smaller listed companies listed on the Australian Stock Exchange</td>
<td>Clarke and Klettner (2009)</td>
</tr>
<tr>
<td>Theory development</td>
<td>Hernandez (2012); Al Mamun, Yasser and Rahman (2013)</td>
</tr>
</tbody>
</table>

3.2.2 Servant Leadership Theory

Closely related to stewardship is the idea of the servant leader (Caldwell et al, 2012; Boone and Makhani 2013) or servant leadership (Dyck and Schroeder, 2005; Caldwell et al, 2012). It was first mentioned by Robert K Greenleaf (1970, in Boone and Makhani 2013, p 83) and similar to stewardship traced back to Jesus’ parables and other teachings in the Bible (Hannay, 2009). Servant leadership’s link to stewardship comes from the call to be a
“responsible steward” (Caldwell et al, 2012, p 180) who is committed to serving stakeholders, and social responsibility (Jones, 2012). LC Spears (1998, in Irving, 2008, p 85; 2002, in McCuddy and Cavin 2008, p 108 and in McCuddy and Cavin, 2009, p 130) listed stewardship as a characteristic of servant leadership. Stewardship was also described as one of the behaviours (McCuddy and Cavin, 2008; 2009) or “operational themes” (Irving, 2008) of servant leadership.

Separately, Barbuto & Wheeler (2006, in Jones, 2012, p 23) used “organizational stewardship” to describe one of the traits of the servant leader. Caldwell et al (2012, p 177) introduced the terms “ethical stewardship” and “ethical stewards”, among others, to argue for a new standard of leadership they called transformative leadership. As Greenleaf (1977, in Jones, 2012, p 23) had originally conceptualised, the servant leader facilitates an atmosphere within the organisation to develop and grow a sense of community among the members. This serves to achieve the goals and objectives of the organisation, one of the objectives of servant leadership that Greenleaf (1977, in Jones, 2012, p 26) had intended. Servant leadership is a “non-conventional ideal-type of management” (Dyck and Schroeder, 2005, p 707) that veers away from the conventional emphasis on materialism and individualism. Other aspects of servant leadership entail serving others rather than being served (Boone and Makhani 2013), and helping others to develop and grow in maturity (Jones, 2012).

Developing others includes assisting them to achieve goals (Vinod and Sudhakar, 2011; Caldwell et al, 2012) which is key to the leader’s other role of implementation after vision setting (Vinod and Sudhakar, 2011). The servant leader concept had increased in popularity since Greenleaf’s introduction (Jones, 2012), and had emerged into a new research area that links “ethics, virtues, and morality” (Parris and Peachey, 2013, p 378). Among the applications of the concept in research were construction of an index to measure servant leadership; further development of theoretical models to inform practice; and using the models to improve practice. Measuring instruments included the: Organizational Leadership Assessment model (Laub, 2003, in Irving, 2008, pp 85-6); Servant Leadership Survey (Dierendonck and Nuijten, 2011); and Executive Servant Leadership Scale (Reed, Vidaver-Cohen and Colwell, 2011). One study that led to the construction of a model, for example, linked the concepts of servant leadership, shared leadership, and caring relationships to knowledge creation (Rai and Prakash, 2012).
Shared leadership and caring relationships were among the components of Laub’s Organizational Leadership Assessment model (1999, updated 2003, both in Irving, 2008, p 84 and pp 85-6, respectively). In an earlier study, Irving (2004, in Irving, 2008) provided empirical evidence linking servant leadership, based on Organizational Leadership Assessment scores, to team effectiveness (Irving, 2008). As a follow on to this, Irving (2008) proposed three ways to apply the Organizational Leadership Assessment model as a tool to diagnose areas for staff training to increase team effectiveness. Hannay (2010) suggested using Hofstede’s (1993, p 91) five “culture dimension scores” to assess how servant leadership would fit in a particular culture. Among the ten countries that Hofstede evaluated, Hong Kong, before its reversion to China, was the most similar to Singapore in culture. Based on Hannay’s method of determination, none of the 10 countries were ideally suited for servant leadership although Singapore met three of the five cultural dimensions.

3.2.3 Left-Brain and Right-Brain Theory, and Metaphors

The theory of left and right brain thinkers is applied predominantly in marketing research and in particular advertising (Hecker 1981, Rossiter and Percy 1991, Morgan and Reichert 1999, Grimes 2006). This theory also appears in organisational behaviour studies on management decision making (Mintzberg 1976, Taggart et al 1985, Rigby et al 2009), business ethics (Brady 1986) and leadership training (Kutschera and Byrd 2006). Conceptually, analytical and objective left brain managers-controllers complement right brain imaginative and creative entrepreneurs to form a left- and right-brain partnership in successful organisations (Rigby et al 2009). Bain consultants termed them “both-brain” partnerships, citing the late Steve Jobs’ creative genius and then COO, Tim Cook’s executive leadership at Apple Computers, among others, as examples (Rigby et al 2009, p 80).

Metaphors (Morgan, 1980) are typically used as “a way of seeing” to assist in thinking and deepening insight towards understanding (Morgan 1997, p 4). More specifically, meaning is created through metaphors which assist in understanding a new or an unfamiliar phenomenon by relating it to “what is common” (Morgan 1983, p 602). On a separate note, Llewelyn (2003) argued in her article on methodological issues that metaphors provide an effective means to theorise the complex organisational blackbox especially in explaining structures and processes. Left- and right-brain theory and metaphors are applied in theorising the approaches.
within organisations to risk-opportunities-controls, but first the enterprise risk management concepts included in developing this conceptual model is examined next.

### 3.2.4 Enterprise Risk Management Concepts

#### 3.2.4.1 Historical Background

In this discussion on enterprise risk management (ERM) concepts, frequent reference is made to The Committee of Sponsoring Organizations of the Treadway Commission, commonly known as COSO. Accordingly, background information is first provided on COSO and the five accounting and finance bodies that sponsored its formation along with the corporate governance roles of the individual members in these bodies. Among the factors that heightened awareness in corporate governance previously reviewed in Chapter 2 was the explosion of corporate scandals in the 1980s that plagued the UK, US and elsewhere (Tricker, 1993). In the US, five accounting and finance bodies collectively formed COSO in 1985 to address the wave of fraudulent financial reporting (The Committee of Sponsoring Organizations of the Treadway Commission, 1985-1992; Singleton 2007). These bodies represent accountants and financial executives in academia, industry and public practice, and each has a role in promoting good corporate governance as it relates to the risk of fraudulent financial reporting.

Academics belonging to the American Accounting Association (AAA) are typically associated with research, for example into the causes of fraudulent financial reporting (Chambers and Crowley, 2003; Federick, 2003; Sweeney, 2003; and Watkins, 2003). Since early 2000, the US was hit by the next explosion of high profile corporate financial scandals including Enron (Chandra, 2003; Leeds, 2003; Taylor, 2003), Worldcom, Adelphia, Global Crossing, and Xerox (Taylor, 2003). Accounting programmes in US universities came under pressure to incorporate ethics in the curriculum to train the future generations of accountants (Dellaportas, 2006; Williams and Elson, 2010; Klimek and Wenell, 2011; Manalo, 2013). Accountants in industry belonging to the Financial Executives International (FEI) and Institute of Management Accountants (IMA), especially at the management level, set the tone for reliable financial reporting within their organisations (King, 2013). They are responsible for implementing business systems and business ethics (Metzger et al, 1993; Clarke, 2011) as
well as provide ethical leadership (Arel et al, 2012) to prevent and detect fraudulent financial reporting.

Over in public practice, members in The American Institute of Certified Public Accountants (AICPA) are primarily practitioners involved in rendering opinions on the reliability of a company’s external financial statements. Issues faced by public accountants include auditing in a globalised environment (Cohen et al, 1993), auditor ethics (Schlachter, 1990), and detecting clients’ unethical behaviour (Ward and Deck, 1993; Hunton et al, 2011). In the last group, accountants who are auditors in industry and members of the Institute of Internal Auditors (IIA) have a dual role in compliance, financial and operational audits (Kral, 2010; Steffee, 2011).

Internally, they provide feedback to management on operational matters, for example, merger and acquisition transactions (Dounis, 2008), risk assessments (Kral, 2010), and process performance improvement (Greg et al, 2012; Maquire, 2012). A strong internal audit function leads to a moderation in the level of earnings management (Prawitt et al, 2009) and even reduction (Arel et al, 2012), fostering investor confidence (Holt and DeZoort, 2009). Another study reveals that an effective internal audit function increases the likelihood that in-house accountants would question the ethics of questionable accounting by senior management and other staff (Arel et al, 2012).

3.2.4.2 Risk Management Concepts and Techniques

Among available frameworks, the pioneering Joint Australian/New Zealand Risk Management Standard 4360 (AS/NZS 4360) was developed based on existing “risk management ideas and processes” and was published in 1995 (Peace, 2009, para 1). An American framework, Enterprise Risk Management - Integrated Framework (The Committee of Sponsoring Organizations of the Treadway Commission 2004), hereafter the COSO ERM Framework, is also widely accepted and applied globally. It is unsurprising that in a Google search of risk management frameworks by their names, AS/NZS 4260 and the COSO ERM Framework returned the first and second number of results, respectively (Erben, 2008). The search listed ISO 31000:2009 Risk Management – Principles and guidelines (ISO 31000:2009), then still in draft, a distant third but ahead of other earlier frameworks developed in Austria/Switzerland, Japan, Canada, and South Africa.
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This is not unusual given that ISO 31000:2009 is not only an international standard but has a familiar allure since it was developed largely based on AS/NZS 4360 (Erben, 2008; Peace, 2009). The key ERM concepts and application techniques presented in the remaining discussions are drawn primarily from the COSO ERM Framework. Discussions are focused on five of the eight ERM components contained in the COSO ERM Framework: identification of risk events; risk assessment; responses to risks; controls; and monitoring. Additional commentaries from other sources, including ISO 31000:2009, are provided where they serve to clarify the concepts and application techniques contained in the American framework.

3.2.4.2.1 Events that present risks and opportunities

One certainty faced by organisations is change (McNamee, 1998), and the COSO ERM Framework provides for identification, assessment and treatment of events that present risks to strategy implementation and achievement of enterprise objectives. The COSO ERM Framework also recognises that not all events have negative effects and those that present opportunities are to be directed to the organisation’s strategy and objective setting process for consideration. Practical challenges related to identifying risk events in the real world can be illustrated with an example from military intelligence, as reported by the former US Secretary of Defence, Donald Rumsfeld.

Responding to a question on terrorism and weapons of mass destruction at a NATO press conference on the 6th of June 2002, Rumsfeld classified three event categories based on knowledge of occurrence. These events are the “known knowns” (“we know that we know”); “known unknowns” (“we now know we don’t know”); and “unknown unknowns”, that is, “we don’t know we don’t know” (Rumsfeld, 2002). Taleb (2008), a former trader who turned author and lecturer, expanded on the unknown unknowns calling them black swan events; this is explored further in the concluding discussions on controls and monitoring.

3.2.4.2.2 Assessing risks

The COSO ERM Framework suggests application techniques to assess the identified risk events that bring about organisational changes in terms of the likelihood of occurrence as well as the magnitude of impact. This is illustrated in the risk matrix presented in Figure 3.3.
below, constructed partly based on an example provided in the draft ISO/DIS 31000 (International Organization for Standardization 2008) preceding ISO 31000:2009. The risk matrix or heat map (The Committee of Sponsoring Organizations of the Treadway Commission 2004) also incorporates application techniques provided in the COSO ERM Framework. Additionally, the risk matrix or heat map illustrates that risk assessment is performed at two levels where inherent risk is first assessed before management action and residual risk is re-assessed post management response. Illustrated in Figure 3.3, the inherent risk at point ‘A’ was initially assessed to be of critical risk and after management action the residual risk had been reduced to high risk.

![Risk Matrix/Heat Map](image)

**Legend:**
Red – Critical; Canary – High; Green – Moderate; Blue – Low

[Sources: COSO ERM Framework (2004), Draft ISO/DIS 31000 (2008)]

3.2.4.2.3 Responding to risks

In respect of risk treatment options, the COSO ERM Framework lists four possible responses which are to accept, avoid, reduce or share the assessed risks. No action is taken to alter the likelihood or impact when risks are accepted while risk avoidance entails exiting existing, or not entering new, activities that presents the risks. ISO 31000:2009 clarifies that they are
conscious decisions to retain risks or taking on increased risks to pursue opportunities, and to remove the risk source, respectively (International Organization for Standardization, 2008; Purdy, 2010). In the last two options, deliberate actions are taken to deal with the likelihood and/or impact of the assessed risks. One way to reduce the assessed risk likelihood and impact is to build internal controls into daily and routine operational procedures while considering costs and benefits; an illustration is discussed next. The impact of assessed risks can also be shared with, passed on, or transferred to another party through the purchase of insurance policies, joint venture agreements, and hedging.

<table>
<thead>
<tr>
<th>Release Date</th>
<th>Title of Publication</th>
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<tbody>
<tr>
<td>September 1992</td>
<td>Internal Control – Integrated Framework (updated and replaced with the May 2013 release)</td>
</tr>
<tr>
<td>June 2006</td>
<td>Internal Control over Financial Reporting – Guidance for Smaller Public Companies</td>
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The US response to the risk of fraudulent financial reporting illustrates implementation of internal controls to reduce both the likelihood of the risk occurrence and the magnitude of impact if it does occur. Some initial background information is introduced to provide the necessary contextual background before an application example is explained to illustrate. COSO developed the initial guidance on internal controls (see Table 3.2 above) 12 years before its ERM Framework in response to the first major wave of US fraudulent financial reporting in the 1980s. Revisiting earlier discussions, the series of events that followed this explosion of corporate financial scandals began with the formation of COSO in 1985 by five accounting and finance bodies. COSO sponsored an independent study of the US financial reporting system to identify fraudulent financial reporting “causal factors” and “steps to reduce its incidence” (National Commission on Fraudulent Financial Reporting, 1987, p 1).

One of the Commission’s recommendations required US listed companies to implement internal controls that would prevent, or otherwise detect, future fraudulent financial reporting.
at an early stage with “reasonable assurance” (p 33). Summarising, the Commission recommended that COSO develop “additional, integrated guidance on internal controls” (p 11), which led to COSO’s Internal Control – Integrated Framework (The Committee of Sponsoring Organizations of the Treadway Commission, 1992). Since the development of the initial integrated framework on internal controls, the US had been hit again by a second major wave of fraudulent financial reporting in the 2000s. Some of the more prominent US listed companies caught in this round of corporate financial scandals included Computer Associates, McAfee, US Wireless, Enron, Adelphia, ConAgra, and Tyco (Corporate Fraud Task Force, 2008). Corporate financial improprieties that imploded in the early 2000s were attributed to weak ethics (Sweeney, 2003; Watkins, 2003); the US capitalist model (Chambers and Crowley, 2003); and corporate corruption (Federick, 2003).

The US Congress reacted with the passage of the Sarbanes-Oxley Act 2002 in which Section 404 in particular pinned the responsibility for reliable financial reporting on company management (Green, 2003; Wiesen, 2003). Adding to the guidance in the 1992 Internal Control – Integrated Framework, COSO issued Internal Control over Financial Reporting – Guidance for Smaller Public Companies (The Committee of Sponsoring Organizations of the Treadway Commission, 2006). From mid-2010 to the end of December 2012, COSO had been working on several initiatives that provide further and updated guidance on assessing the effectiveness of internal controls. COSO announced the results of these efforts in mid-May 2013, releasing an updated internal control framework with two companion volumes on illustrative tools and external financial reporting, respectively (McCallum 2013). In Volume II of the 2006 Internal Control over Financial Reporting – Guidance for Smaller Public Companies, an application example illustrates internal controls that reduce risk likelihood (prevent), and impact (detect), if not prevented. Objectives of reliable financial reporting reflect financial statement “assertions”, for instance, to ensure the “existence” of assets reported is accurate (The Committee of Sponsoring Organizations of the Treadway Commission, 2006, p 44).

Due to the likelihood of “fraud risk” (p 50) however, the value of assets reported in the financial statements may be inaccurate as they may have been lost to employee theft and pilferage. Accordingly, both “preventive and detective controls to safeguard assets” (p 59) can be implemented, ultimately to achieve the objective of reliable financial reporting. For example, loss from theft and pilferage can first be prevented by storing a gold mine’s
inventory under lock and key while access to the warehouse can be restricted to authorised personnel only. To cover the likelihood that theft and pilferage may not be prevented, an additional detective control is for a warehouseman to weigh and log gold stock movements in and out of the warehouse. As well, weekly weighing of the gold inventory and reconciliation to the log by internal audit serves to enable early detection of any staff misappropriation for immediate remediation action to prevent further losses.

3.2.4.2.4 Controls and monitoring

To ensure that the responses to risks are implemented properly and are indeed operating effectively, the COSO ERM Framework further provides for controls together with ongoing and periodic monitoring to follow risk treatment. There are two separate aspects to the implementation of internal controls in ERM (The Committee of Sponsoring Organizations of the Treadway Commission, 2004). In the first instance just examined, the first volume of COSO’s ERM Framework containing the Executive Summary and Framework explains that for “certain objectives, control activities themselves are the risk response” (p 62). The financial reporting objective in the specific example examined is to ensure that gold inventory as reported in the financial statements exists and is accurately recorded. Both the preventive and detective control activities serve to respond to the risk that the objective may not be achieved due to fraud risk, in particular from employee theft and pilferage, or error.

In other instances, control activities such as policies and procedures that include authority limits and supervisory reviews serve to ensure that risk responses are implemented as intended. Monitoring is among one of the five, and eight, components, respectively in COSO’s 1992 and 2013 Internal Control – Integrated Framework and 2004 ERM – Integrated Framework. However, COSO’s Guidance on Monitoring Internal Control Systems (The Committee of Sponsoring Organizations of the Treadway Commission, 2009) has a shorter history. In the words of the COSO Chair, this follow-on guidance served to provide “a better understanding and more efficient utilization of the monitoring component” of COSO’s Internal Control – Integrated Framework (Rittenberg, 2009).

All three frameworks describe two categories of monitoring in which activities can be monitored continuously or subjected to periodic evaluations; the frameworks also prescribe a combination of both categories of monitoring. The relationship between controls and
monitoring is explained by the concepts of control “design effectiveness” and “operating effectiveness” (Public Company Accounting Oversight Board, 2007, para 42, 44). To ensure achievement of objectives, control activities initially implemented by management to respond to risks that threaten this purpose need to be designed effectively. Thereafter, they need to be monitored continuously and tested periodically to determine that they are indeed operating as intended (Ramos, 2004a; Ramos, 2004b; Ramos, 2004c).

Wrapping up this discussion on ERM concepts and application issues, risk management initially focused on managing the risk of fraudulent financial reporting (The Committee of Sponsoring Organizations of the Treadway Commission, 1992). It had since evolved to encompass other enterprise risks (The Committee of Sponsoring Organizations of the Treadway Commission, 2004), and heightened board attention after the 2009 financial crisis (Barton et al 2011). Even so, company management finds it a challenge just to get started with risk event identification and generate a list of risks that is complete, relevant and specific to their organisations (Lavoie, 2011). At the board level, directors are under increasing pressure and especially post-financial crisis to understand the risks that management are committing their organisations to (Ballou et al, 2011). In a survey of board members to understand what they thought of the risk information the management of their organisations were providing them, Ballou and his co-authors received feedback from 125 respondents.

Ballou et al found that boards were not being apprised sufficiently on key risks and responses but interestingly, most survey respondents felt they were briefed adequately to enable their performance as risk overseers. Compounding the challenge of risk event identification is coming up with the most worrisome category of unknown unknowns (Rumsfeld, 2002). Taleb (2008) expanded on this risk category in similar terms as the COSO ERM Framework - by likelihood of occurrence and magnitude of impact. To Taleb (2008), unknown unknowns are black swan events which are not only highly improbable and while the likelihood of occurrence is unpredictable, they occur with high impact. On a separate note, McNamee (1998, p 2) had written ten years earlier that the nature of change is such that it can be “linear” or “circular”. It is linear where a prediction can be made based on past understanding and circular when change is expected to recur due to past occurrence (McNamee 1998).

McNamee’s view comported with Singapore’s risk dilemma identified in 1965 (discussed in Chapter 2), but it had been challenged by updated thinking in a world that has changed and
continues to change rapidly. Among the six risk management mistakes listed by Taleb et al. (2009) that company managers had made, they cautioned against committing the first two which is relevant to this discussion. Based on their research, the tendency was to think that risk can be managed by first studying the past, and then applying it to predict the unknown unknowns or black swan events. In today’s business environment made increasingly complex due to globalisation and the Internet, it had become virtually impossible to identify “low-probability, high-impact”, that is, black swan events (Taleb et al, 2009, p 3). They argued that managing risks is not about predicting the future; the focus needs to be re-directed towards risk “consequences” (Taleb et al, 2009, p 3), to reduce the impact of such events.

3.3 The Conceptual Model

Applying the advice and guidance in Blaikie (2000, 2010), theorising about the social world of corporate behaviour in governance must necessarily begin with concepts. A good theory links concepts to each other and explains the relationships among the concepts to “represent what happens in the social world” (Blaikie, 2010, p 112). More specifically and importantly, concepts applied in the conceptual model provided the setting for the research (Blumer, 1969, cited in Blaikie, 2010, p 112-3). Along Blumer’s thinking, concepts were reflected in the research problem which was to describe corporate governance practices and Code compliance among Singapore smaller listed companies based on the insiders’ views of social actors. Then, the penultimate involvement of concepts was in data collection and reduction and ultimately, the synthesis and analysis of findings. Furthermore and for the application in this research, Blumer (1969, cited in Blaikie, 2010, p 113) advocated the use of “sensitising concepts” as opposed to “definitive concepts”.

3.3.1 Sensitising Concepts

Rehashing, the research underlying this thesis is underpinned by the theories of stewardship, servant leadership, and left-brain and right-brain thinkers as well as concepts relating to use of metaphors and enterprise risk management. By definition, sensitising concepts are not meant to be definitive but serve to “provide clues and suggestions” (Blaikie, 2000, p 137) as a guide for “research in specific settings” (Bowen, 2006, p 3). Four separate but interconnected sets of sensitising concepts derived from the theories, and concepts and ideas explored in the literature review just discussed are set out in Table 3.3 on the next page.
Chapter 3, Theory Underpinning the Research

Table 3.3 Theory-Derived Sensitising Concepts

<table>
<thead>
<tr>
<th>Sources</th>
<th>The Derived Concepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theory, Professional Framework</td>
<td>Set No</td>
</tr>
</tbody>
</table>
| Stewardship theory  
Servant leadership theory | 1 | Stewards  
Stewardship |
| Left-brain and right-brain theory | 2 | Left-brain  
Right-brain  
Both-brain |
| Metaphors | 3 | Organisational sensemaking |
Opportunities  
Controls  
Monitoring |

Discussed in the next sub-section, three among the four sets of sensitising concepts (Set 2-4) were applied in initial theorising to construct an abstract-analytical model (Turner, 1987 cited in Blaikie, 2010, p 152). This abstract-analytical model and the remaining set of sensitising concepts – stewards and stewardship - formed the conceptual model (or, conceptual framework in Bowen, 2006) applied in Chapter 6 to synthesise and analyse findings. Ultimately, theory was developed from the themes developed from the research findings (Bowen, 2006) to achieve the research objective, which was to describe corporate governance practices and Code compliance among smaller listed companies.

3.3.2 Initial Theorising: The Abstract-Analytical Model

Construction of the abstract-analytical model followed both the ontological and sensitising traditions in the application of concepts (Blaikie, 2000, 2010). The ontological tradition entailed identification of concepts that could be linked to provide a conceptual scheme of the social world for better understanding (Blaikie, 2000, 2010). Concepts need to be sensitising rather than definitive in order to enter the social world to find the common observations (Blumer, 1969, cited in Blaikie, 2000, 2010). Figure 3.4 (see next page) presents the abstract-analytical model which incorporates Sets 2-4 of the sensitising concepts in initial theorising on the approaches by managers within an organisation to risks-opportunities-controls.
Events, that is, risks and opportunities are set out on the horizontal axis while controls, the interrelated enterprise risk management component which includes monitoring, are represented on the vertical axis. Additionally, the abstract-analytical model incorporates family member metaphors to argue that analytical and objective left-brain managers—controllers complement right-brain imaginative and creative entrepreneurs to form a left- and right-brain partnership in successful organisations. At the far right end, the adventurous teenager designates the hard charging entrepreneur who thrives on risks, eschews controls, and who is focused solely on profit making. On the other end, the strict parent elicits the well-meaning cautious controller who has the best interests of the organisation at heart but may nevertheless unintentionally stifle creativity. Conceptually therefore, to the extent that both parties can forge a collaborative and compromising partnership, as in a successful spousal relationship, then the desired risk-opportunity-control conscious organisation may result to maximise organisational objectives.

3.4 Summary and Conclusion

Among the past academic researches and business studies explored and discussed in the literature review in Chapter 2, only one of them which was an academic research had considered theory. This particular academic research had adopted theory applied by a
previous researcher and incorporated the hypothesis in testing the link between corporate governance practices and company performance among Singapore listed companies. The research underlying this thesis aimed to fill the gap in theory application in past academic researches and business studies on corporate governance among listed companies in Singapore. Three sets of theory-derived sensitising concepts based on left- and right-brain theory, enterprise risk management concepts, and the use of metaphors were applied in initial theorising to build the abstract-analytical model. These three sets of sensitising concepts: left-brain, right-brain, and both brain; risks, opportunities, controls, and monitoring; and organisational sensemaking, respectively, were incorporated into the abstract-analytical model referred to as ‘approaches to risks-opportunities-controls’.

The abstract-analytical model and remaining sensitising concepts derived from stewardship theory and servant leadership theory, stewards and stewardship, formed the conceptual model that provided context to the research. Next, Chapter 4 addresses application of the conceptual model in the synthesis and analysis of findings ultimately to theorise further in describing corporate governance practices and Code compliance among smaller listed companies. The discussion in Chapter 4 on research methodology also includes how the theory underpinning the research comports with the research strategy and paradigm adopted in the research. With the theory underpinning the research laid out, the research methodology addressed in the next chapter is the remaining necessary piece to provide for the staging of the research. To recap, Part One of the thesis to provide for the staging of the research is comprised of Chapter 2, Literature Review; Chapter 3, Theory Underpinning the Research; and Chapter 4, Research Methodology.
CHAPTER 4
RESEARCH METHODOLOGY

Research Strategy and Methodological Framework

Figure 4.1 Layout of the Discussions in Chapter 4

<table>
<thead>
<tr>
<th>Section</th>
<th>Section Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>4.2</td>
<td>Preliminary Research Design Matters</td>
</tr>
<tr>
<td>4.3</td>
<td>Research Strategy and Paradigm</td>
</tr>
<tr>
<td>4.4</td>
<td>Methodological Framework</td>
</tr>
<tr>
<td>4.5</td>
<td>Summary and Conclusion</td>
</tr>
</tbody>
</table>

4.1 Introduction

Figure 4.1 outlines the “core elements” of the research design (Blaikie, 2000, p 33) which is the final piece in Part One of the thesis to provide for the staging of the research. Organised into three sections, the discussions beginning in Section 4.2 addresses two preliminary matters on research design uncovered in the literature reviews in Chapter 2 to present the research topic, problem, and questions. Following in section 4.3, the research strategy and paradigm adopted in this research to answer the research questions are then discussed and justified including how theory addressed in Chapter 3 is incorporated therein. Wrapping up, section 4.4 presents the methodological framework and specifically the research methods employed to first determine the data sources, type and form, and then to select, collect, reduce and analyse the data.

Before proceeding, it is necessary to revisit the frequent and extensive reference to the Singapore Code or the Code in this chapter which had been previously defined in Chapter 1,
Corporate Governance Singapore-Style: Practices and Code Compliance among Smaller Listed Companies

Introduction. The Singapore Code or just the Code as used hereafter in the rest of this chapter refers to the Singapore Code of Corporate Governance that was released by the Corporate Governance Committee (2001). Consistent with the ‘comply or explain’ philosophy adopted in the Code, the Singapore Exchange required listed companies to disclose their corporate governance practices in annual reports from 1 January 2003. Listed companies are required to provide explanations where the disclosed practices are not in accordance with the Code recommendations, referred to as Code compliance in this discussion.

4.2 Preliminary Research Design Matters

Knowing what you want to find out leads inexorably to the question of how you will get that information. (Miles and Huberman, 1984, in Silverman, 2013, p 123)

In referring to the quote reproduced here Silverman (2013, 123) suggested that it is advisable to have “prior structuring”, or “prior instrumentation” in the words of Miles and Huberman, in designing a study. Research design is not a linear process, and formulating research questions to seek answers to the research problem or topic is the “real starting point” in a research design Blaikie (2000, p 23). Besides Blaikie (2000), other texts on guidance in research design such as Gray (2004) and Grix (2004) also list the identification of the research topic or problem at the start of the process.

Next in sub-section 4.2.1, the first of the two preliminary research design matters uncovered in the literature reviews on corporate governance research in Chapter 2 is addressed. This matter involves the two research gaps pertaining to research methods identified in past academic researches and business studies on corporate governance among Singapore listed companies. These gaps in the literature were the bases from which the research topic and problem was derived, and sub-section 4.2.2 describes how the research questions were formulated. The other and second matter entails findings in past researches that had attempted to link corporate governance and company performance, both in Singapore listed companies as well as in other global listed companies. Discussed in sub-section 4.2.3, the mixed and inconclusive nature of the findings coupled with methodological issues raised in past researches led to changes in this researcher’s initial research design that was previously approved.
4.2.1 Research Topic and Problem

Studies on corporate governance of companies listed on the Singapore Exchange, both pre- and post-Singapore Code Compliance since the 1st of January 2003, tended to share one of two, but rarely both, characteristics. In respect of the first characteristic, these studies either covered all the companies listed on the Singapore Exchange irrespective of size or focused on just the larger listed companies. As to the second characteristic, the studies either investigated Singapore Code compliance with all recommendations or specific Singapore Code principles and their accompanying guidelines only. Two studies in particular shared both characteristics and which warrant specific mention, and the background to these studies were examined and described in Chapter 2 on the literature reviews. One study completed in 2007 (hereafter, the 2007 study) was commissioned by the Monetary Authority of Singapore and the Singapore Exchange. Both the regulators are tasked with the joint-responsibility for monitoring corporate governance in companies listed on the Singapore Exchange mainboard and the Catalist secondary board. The second of the two studies of especial relevance to this research is an annual study that computes the Governance and Transparency Index of listed companies.

Two arguments were proffered to justify the research leading to this thesis which covered only smaller listed companies, defined in this study as companies with market capitalisation of below SGD 500 million. First, smaller companies comprise the majority of all listed companies. Based on market capitalisation data on the companies listed on the Singapore Exchange, more than 80% had market capitalisation below SGD 500 million as of 31 December 2013. Furthermore, the fact that past studies tended to either cover companies of all sizes or focused on just larger companies disclosed that smaller companies had yet to be afforded the emphasis they deserve. Second, while the 2007 study and the annual Governance and Transparency Index provided comparatively more comprehensive descriptions on corporate governance among listed companies they were limited to a business study perspective only. Several observations from an examination of the two studies in particular revealed research gaps that presented an opportunity for the research underlying this thesis.

Firstly, both the 2007 study and the annual Governance and Transparency Index were business studies and theory was therefore not a consideration in each of the studies. Secondly, the descriptions of corporate governance practices and Code compliance in both studies were based on self-disclosed information by the listed companies themselves in annual reports. Additionally, the annual Governance and Transparency Index only published information that
were limited to basic index data comprising the raw scores and adjustments, plus other
information highlights. Furthermore, although the 2007 study also collected data from two
focus group discussions, descriptions on practices and Code compliance based on the findings
gathered from this source were however, in highly summarised form. Thirdly, the total scores
of listed companies in the annual Governance and Transparency Index indicated that most of
the smaller listed companies lagged behind in practices and Code compliance. This
observation was however, not addressed in the descriptions and although the 2007 study
delved into this issue in the focus group discussions descriptions in the findings as mentioned
earlier were scanty.

In summary, smaller listed companies with market capitalisation of less than SGD 500 million
is a sizeable majority of all companies listed on the Singapore Exchange. Additionally and
evidently, the total scores of listed companies from the published annual Governance and
Transparency Index indicated that most of the smaller listed companies lag behind in practices
and Code compliance. More pertinently, more than half (57%) of smaller listed companies
scored 30 points and below in the 2011 Governance & Transparency Index, graded on
disclosures in annual reports in the preceding calendar year. This figure rose to 97% when the
number of smaller listed companies with scores of below 50 on the 2011 Governance &
Transparency Index is taken into consideration. Two among the handful of studies provided
relatively more comprehensive descriptions on corporate governance of listed companies but
were from a business perspective and based on self-disclosures of the companies. An
academic study underpinned by theory and focused on smaller listed companies is needed
therefore, to provide descriptions based on insiders’ views of social actors that also address
the low annual index scores.

4.2.2 Research Objectives and Questions

The Code is now 13 years old since it was first released in 2001 and it had been updated twice
already, first in 2005 and mostly recently in 2012. Also, listed companies had been required to
disclose their corporate governance practices together with departures from the Code in
annual reports for 11 years already, for the calendar years from 2003 to 2013. As the
preceding discussion on the research problem had established, the research objective aimed to
describe the corporate governance practices, including Code compliance, of smaller listed
companies from the perspective of social actors. The research gathered data to answer four
‘what’ research questions, starting on the attitude within smaller companies towards corporate governance in general and Code compliance in particular.

More specifically, research findings were sought to describe what they understand corporate governance and Code compliance to be and what motivates them to comply or explain. The next question that followed was on the issues faced by the smaller listed companies in corporate governance, in particular the problems and difficulties encountered and the more challenging Code principles and guidelines. Question three was designed to elicit answers to describe the impact of the Code in influencing corporate governance practices and compliance among smaller listed companies, comparing the pre- and post-Code states. Lastly, views were sought on the effect of stakeholders – shareholders; regulators; and various business and professional organisations – in influencing practices and Code compliance among smaller listed companies and, what further changes are needed.

Summarising, the research aimed to investigate and analyse the corporate governance practices of, and Code compliance among, smaller listed companies from the perspectives of social actors. The Code refers to the Singapore Code of Corporate Governance and smaller listed companies include entities with market capitalisation of less than SGD 500 million. Social actors in the context of the research included independent directors; executive directors; CFOs; auditors; legal and other external advisors; and other corporate governance stakeholders. The research questions are:What are the attitudes within smaller listed companies (SLCs) towards corporate governance and Code compliance? What are the problems and other issues faced by SLCs? What had been the impact of the Code on corporate governance among SLCs? What changes are needed to improve practices and Code compliance among SLCs?

4.2.3 Changes to the Initial Research Design

As previously intended, the three-stage project was initially designed to achieve both breadth and depth of research (Silverman, 2013) on a contemporary Singapore business issue with the objectives to explore and prescribe changes. Stage one aimed to develop an index to explore corporate governance practices and Code compliance among the smaller companies listed on the Singapore Exchange. In stage two, the exploration was to establish whether a relationship exists between good corporate governance practices and shareholder value among the smaller listed companies (SLCs). The project was to wrap up in stage three to explore how corporate
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governance impacts SLCs; draw insights into what works and does not; and suggest changes
to suit such entities. Subsequent to the approval of the initial research proposal however, rapid
developments in corporate governance practice and research, Singaporean and global,
necessitated changes to the previous research design as it was originally intended.

In regards to the previously proposed stage one, an annual index which is available to the
corporation had already been in place for five years now since the initial research design was
approved. This is the Governance and Transparency Index calculated by the National
University of Singapore’s Centre for Governance, Institutions and Organizations, sponsored
by CPA Australia (Yap, 2008) together with other business and professional organisations. In
2009, the Governance and Transparency Index replaced its predecessor Governance
Transparency Index which was first launched in 2000 by The Business Times, Singapore
(Yap, 2008). Both the current and preceding indices were designed by a former National
University of Singapore research unit, the then Corporate Governance and Financial
Reporting Centre. The preceding Governance Transparency Index was sponsored by various
business and professional organisations in conjunction with the annual Singapore Corporate
Awards (Quah, 2005c), but the annual ratings were not published for public access.

On the previously proposed stage two, the complex corporate governance and firm
performance relationship coupled with the inconclusive and confusing findings from past
researches had led to calls for more robust research methods. Phan and Mak (1998) and Lawal
(2012) argued that better methods to determine what constitute good corporate governance
practices and measure firm performance would be needed to advance new knowledge in this
area. Time and cost considerations are particularly important and practical factors in research
design (Blaikie, 2000), and the remaining time available to complete the research and thesis
was especially of critical concern. From a time perspective, to develop new research methods
to address the twin challenges in the corporate governance and firm performance relationship
would be a full project in itself. Considering all these issues, the initial aim in stage two to
establish the correlation between corporate governance and firm performance among
Singapore’s smaller listed companies had therefore become untenable and was dropped.

Stages one and three in the initial research design were modified and reduced to just two
stages in the final design. The redesigned stage one was structured as the principal means of
collecting primary data, which was supplemented in stage two with secondary data.
Accordingly, stage one entailed the collection of primary data generated by the researcher via
two different kinds of semi-structured interviews, the first with individuals and the second with a focus group. Data collection in stage two was limited to tertiary data since secondary data, both in the form of social artefacts, accumulated since the past year was restricted to processing only. The social artefacts served to provide supplemental data for validating data collected in stage one, as a form of triangulation using different data sources (Denzin, 1970, cited in Blaikie, 2010, p 220).

4.3 Research Strategy and Paradigm

How to answer research questions is often described generally as the research strategy (Saether, 1998; Blaikie, 2000, 2007; Baker, 2001; Bryman, 2004; Gray, 2004; Grix 2004; Silverman, 2013). In technical research language, it is the logic of enquiry (Blaikie, 2000, 2007, 2010) as well as the logic of discovery or method (Blaikie, 1993). Other general references include research or general approach (Collis and Hussey, 2003; Gray, 2004; Bloomberg and Volpe, 2012; Silverman 2013) and research methodology (Blaikie, 2000; Collis and Hussey, 2003; Gray, 2004; Grix, 2004). Blaikie (1993, 2000, 2007, and 2010) proffers four research strategies – inductive, deductive, retroductive, and abductive – that is, four alternative logic or sets of procedures to gather research findings for answering research questions.

Among two possible choices – induction and abduction – available to answer the research questions, the aim of the abductive research strategy was a natural fit with the research objective in this study. As Blaikie (2010, p 84) explained, the aim of the abductive research strategy is “to describe and understand social life in terms of social actors’ meanings and motives”. The descriptive aspect in the aim of the abductive research strategy comported with this study’s research objective that had been introduced earlier. To recap, it was to describe the corporate governance practices, including Code compliance, of smaller listed companies from the perspective of social actors.

A combination of the idealist ontology and the epistemology of constructionism were adopted along with the selection of the abductive strategy. This position assumed social reality to be represented in the thinking and interpretations of social actors who construct, conceptualise and interpret their own actions and those of others, as well as social situations. Consequently, the researcher had to initially enter the world of the social actors to learn the social reality from these insiders. Transitioning to the stance of an expert in the next step, the researcher
then reinterpreted the reality gathered in order to describe it in the technical language of the social scientist. In this regard and discussed in the methodological framework, the conceptual model presented in Chapter 3 comprising theory-derived sensitising concepts either incorporated into the abstract-analytical model or stand-alone were applied in data analysis.

To wrap up this discussion on research strategy and paradigm, adoption of the ontological assumptions of the idealist as well as the epistemological assumptions of constructionism was tacit embrace of the interpretivist paradigm. Under this paradigm, the approach of the interpretivist is to view social reality as a cycle of interpretations and reinterpretations. The ontology of interpretivism sees social reality as the interpretations of the social actors, that is, it is pre-interpreted even before the social scientist uncovers it. Application of these philosophical and theoretical perspectives in the reduction and analysis of the primary data collected in the research is addressed in the next discussion on the methodological framework.

4.4 Methodological Framework

A methodological framework incorporating research methods was built to: first determine data sources, type and form; and then select, collect, reduce and analyse the data (Blaikie, 2000, 2010). The constructed methodological framework presented in Table 4.1 on the next page is comprised of a series of work steps from determination of data sources to data analysis. Matched against each work step are the specific objectives shown in the second column, followed by a summary of the research methods to accomplish the objectives. The research methods applied in each of the four work steps are discussed in the four corresponding sub-sections that follow.

4.4.1 Work Step One: Determine Data Sources, Type and Form

Two data sources, primary and secondary data, were mentioned briefly earlier in the discussion on changes to the initial research design and to the two sources must be added tertiary data as well. New and raw researcher-generated primary and qualitative data were available for collection in natural social settings and at a micro level (Blaikie, 2000, 2010) via semi-structured interviews with individuals and a focus group. This primary data source, collected in words in Work Step Three of the research was supplemented by both secondary and tertiary data available in the form of social artefacts (Blaikie, 2000, 2010). Sources of
secondary data available in words were from 25 news reports and newspaper opinion articles from January 2013 to-date.

Table 4.1 Methodological Framework

<table>
<thead>
<tr>
<th>Work Steps</th>
<th>Purpose in Each Work Step</th>
<th>Research Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Determine data sources, type and form (Table 4.2)</td>
<td>(a) Searched the literature</td>
</tr>
<tr>
<td>Two</td>
<td>Test and decide on data selection</td>
<td>(a) Conducted research and applied the conceptual model to: (i) Compile interview target lists; and (ii) Compile a sponsor organisation list. (b) Pilot tested interview invitations. (c) Applied judgemental/snowball sampling. (i) Targeted directors and professionals.</td>
</tr>
<tr>
<td>Three</td>
<td>Collect both qualitative and quantitative data from both secondary and tertiary data sources</td>
<td>(a) Designed interview questions (Table 4.3). (b) Employed qualitative methods to: (i) Conduct 21 individual semi-structured interviews; and (ii) A focus group interview with 3 participants. (c) Applied both qualitative and quantitative methods to: (i) Conduct a content analysis of documents comprising of the social artefacts summarised in Table 4.2; and (ii) Assemble other opinions from both secondary and tertiary data.</td>
</tr>
<tr>
<td>Four</td>
<td>Reduce and analyse data</td>
<td>(a) Applied the conceptual model to categorise data by four topics (Table 4.3) which are presented in Chapter 5. The following are discussed in Chapter 6: Analysed findings with conceptual model. Applied philosophical and theoretical perspectives, and the conceptual model to search for common themes to describe / theorise. (b) Employed the method of triangulation using data assembled in Work Step Three (c) above to validate findings collected in Work Step Three (b).</td>
</tr>
</tbody>
</table>

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In the third type of available data, there were three separate sources of tertiary data that had already been analysed by the researchers who generated them (Blaikie, 2000, 2010). They were also in the form of social artefacts, and consisted of public documents in both numbers and words as well as in words only. All three sources of data, and the types and forms of data available for collection are summarised in Table 4.2 presented below. Among the listing in the table, the tertiary social artefacts were the only items found during the literature searches in Chapter 2, in particular the section on corporate governance research. As for the 25 secondary social artefacts listed in the table, they were not the result of deliberate literature searches. Rather, they were matters pertinent to this research that had come to the attention of the researcher primarily when reading the news from 2013 to-date.

Table 4.2 Sources of Data, and the Types and Forms of Data Collected

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Data Type</th>
<th>Data Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural social settings, at a micro level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Semi-structured interviews of 21 individuals</td>
<td>Primary; qualitative;</td>
<td>Words</td>
</tr>
<tr>
<td>• Focus group discussion with 3 participants</td>
<td>researcher-generated</td>
<td></td>
</tr>
<tr>
<td>Social artefacts – 25 documents, comprising</td>
<td>Secondary, qualitative;</td>
<td>Words</td>
</tr>
<tr>
<td>news reports and newspaper opinion articles</td>
<td>generated by other researchers</td>
<td></td>
</tr>
<tr>
<td>Social artefacts, specifically the:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 2007 joint Monetary Authority of Singapore and</td>
<td>Tertiary, qualitative and</td>
<td>Numbers and</td>
</tr>
<tr>
<td>Singapore Exchange study (Mak, 2007);</td>
<td>quantitative; generated and</td>
<td>words</td>
</tr>
<tr>
<td>• Annual Governance and Transparency Index</td>
<td>analysed by other researchers</td>
<td></td>
</tr>
<tr>
<td>(reviewed in Chapter 2); and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 2009 study on Governance Issues for SMEs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Clarke and Klettner, 2009)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.2 Work Step Two: Test and Decide on Data Selection

A clue from the theory-derived sensitising concepts (Blaikie, 2000, 2010) incorporated into the conceptual model suggested that insiders were to be targeted in the data selection to gather answers to the research questions. Accordingly, individuals to be approached for the semi-
structured interviews and focus group discussions had to be involved with corporate governance in smaller listed companies (SLCs) listed on the Singapore Exchange, past or present. Such individuals tended to fall into one of three categories, in order of preference. In the preferred category were independent directors on the board in particular the Audit Committee chairman; senior management (CEO, CFO); middle management (financial controller, accountant); or professional staff (internal auditor, risk officer). Individuals who were external services providers in corporate governance related areas, including external audit of financial statements; outsourced internal audit services; and consultants engaged to assist with enterprise risk management were alternative targets. Additionally, individuals who were also suitable participants were grouped in the category of ‘other interested stakeholders’, for example, officers in professional institutions with an interest in corporate governance among SLCs.

The plan in an earlier iteration of the research design was to approach a judgemental sample of 302 smaller listed companies and separately a group of 14 individuals to participate in semi-structured interviews. The grouping of 14 individuals comprised representatives from four regulators; five professional organisations representing accountants, auditors, corporate directors, and investors (institutional and retail); two university research centres; and three mid-tier professional accounting firms. In a pilot test, invitation letters were sent via email to 15 smaller listed companies and all 14 individuals in the group. While there was not a single response from the companies, invitations to the grouping of 14 institutions met with some success which resulted in eight responses although only four representatives agreed to participate. Three of the four responses that did not result in interviews were from regulatory bodies which declined to participate on policy grounds, and the other was a professional organisation.

Arising from the poor results of the pilot test, an adjustment had to be made to the selection of individuals for the semi-structured interviews. The revised approach restricted the invitation to participate in an interview to 73 targeted individuals, specifically professional acquaintances only who were connected with corporate governance in SLCs. These targeted individuals were senior executives and Audit Committee members, or committee members of professional organisations, or practitioners from professional services firms. Additionally, a snowball sampling method (Jones, 2012; Mahdi, 2012) was applied to enhance the response rate among the invited individuals. Other research that have applied the snowballing technique are Moriarty and Bateson (1982); Ramesh (2008); Myers and Ogunc (2008);
Bowling (2010); Contandriopoulos (2010); and Aransiola and Asindemade (2011). These additional efforts in the adjusted approach resulted in an additional 17 individuals who responded positively and participated in an interview, with three resulting from snowballing.

Separately, an attempt was made to recruit additional interview participants by means of a seminar cum focus group discussion. Targeted individuals were invited to a free seminar that addressed enterprise risk management and internal audit issues faced by smaller listed companies. Attendees were then invited to stay on after the seminar to participate in the focus group discussion. To attract potential attendees, three professional organisations representing accountants, directors, and internal auditors; a mid-tier public accounting firm; and a local university were approached to sponsor a seminar each but none were interested. In the end, one seminar cum focus group discussion was organised and held in the researcher’s name and personal capacity. Invitations were sent via email to almost 200 targeted individuals and companies, and seven responded positively and signed up to attend. On the day of the event, five of the individuals and three among them stay on after that to participate in the focus group discussion.

4.4.3 Work Step Three: Collect Data via Qualitative and Quantitative Methods

With a cross-sectional study (Blaikie 2000, 2010) design, this study describes the corporate governance practices and Code compliance of the smaller listed companies at a point in time. This picture captured the attitudes and behavioural issues, including values and belief systems, within the smaller listed companies towards corporate governance in general and Code compliance in particular. Other aspects of the social life investigated were: issues smaller listed companies faced in corporate governance; the effect of the Code and various stakeholders in influencing their practices; and improvement changes needed. Two popular qualitative research methods, the semi-structured personal interview (Wallstrom, Karlsson and Salehi-Sangari (2008) and focus group interview (Ghosh, Dhumal and Chawla, 2011), were employed to collect data to describe this social life.

The semi-structured interview is a common, tried and tested qualitative method that had been applied in research since the 1970s and 1990s seen, for example, in Thurley (1971); French et al (1973); and Dibb (1995). More recent studies that used this method included: Lee et al (2002); Stanton and Weiss (2003); Wentling (2004); Fitzpatrick (2006); Binder and Clegg (2006); Siu and Boa (2008); Brierly (2010); and Knight (2012). Semi-structured interviews
with 17 of the 21 individuals were carried out over a six-month period, from October 2012 to March 2013; the remaining four were interviewed during the pilot testing in April 2012. The four broad categories of questions, together with the respective sub-part questions, to facilitate discussions by the participants at each of the semi-structured interviews are presented in Table 4.3 on the next page.

Separately, the seminar cum focus group discussion event was held on the 27th of March 2013 where data were collected from the three participants who stayed for the subsequent group interview. The nature of the discussions covered the same four broad areas in the individual interviews, along with the sub-questions to prompt sharing from the participants. One variation to the group interview was the emphasis on the Code compliance issues faced by smaller listed companies relating in particular to enterprise risk management and internal audit. In addition to primary data collected from the individual interviews and the only group interview, both primary and secondary data were gathered from the two sources of social artefacts summarised in Table 4.2.

As it was originally intended to mean, the concept of triangulation or use of mixed methods serves as a validity check to corroborate findings from a different method (Blaikie, 2000, 2010). The two research methods applied to collect data, that is, content analysis of documents, and semi-structured individual and group interviews, entailed triangulation in one instance and not in another. In the instance involving triangulation, quantitative data was first collected from the content analysis of documents, specifically the annual Governance and Transparency Index. This was then corroborated with qualitative data gathered from the 21 semi-structured individual interviews and the sole focus group interview in the second stage of the research. Triangulation was not involved in the second instance where the two qualitative methods were employed to collect qualitative data concurrently that would describe corporate governance practices and Code compliance among smaller listed companies. In the second instance therefore, use of the two qualitative methods was intended to provide an additional avenue to collect data especially given the difficulty in securing interviews.

[The remainder of the page is intentionally left blank]
**Table 4.3 Topics and Lead Questions**

to Guide the Content Analysis of Documents and the
Individual Face-to-Face and Group Semi-Structured Interviews

<table>
<thead>
<tr>
<th><strong>Topic One</strong>: Attitudes within smaller listed companies towards corporate governance and Code compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lead Questions</strong>:</td>
</tr>
<tr>
<td>1.1 What is corporate governance to smaller listed companies?</td>
</tr>
<tr>
<td>1.2 What motivates smaller listed companies to adopt corporate governance practices, and embrace the requirement to comply or explain in Code compliance?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Topic Two</strong>: Difficulties and other issues faced by smaller listed companies in corporate governance and Code compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lead Questions</strong>:</td>
</tr>
<tr>
<td>2.1 What problems and difficulties do smaller listed companies have in following the Code principles and guidelines?</td>
</tr>
<tr>
<td>2.2 What are the more challenging Code principles and guidelines to smaller listed companies?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Topic Three</strong>: Impact of the Code on practices during the past 10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lead Questions</strong>:</td>
</tr>
<tr>
<td>3.1 What was the state of corporate governance in smaller listed companies before 2003, that is, before the Code requirement to comply or explain became effective?</td>
</tr>
<tr>
<td>3.2 To what extent had it changed, if at all, in the early years since implementation of the Code?</td>
</tr>
<tr>
<td>3.3 What about now, that is, 10 years later?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Topic Four</strong>: Changes needed to improve corporate governance practices and Code compliance among smaller listed companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lead Questions</strong>:</td>
</tr>
<tr>
<td>4.1 What else should the regulators tasked to promote corporate governance do to improve corporate governance practices and Code compliance among smaller listed companies?</td>
</tr>
<tr>
<td>4.2 To what extent can organisations with an interest in corporate governance contribute to this initiative?</td>
</tr>
<tr>
<td>4.3 What do the smaller listed companies themselves need to do?</td>
</tr>
<tr>
<td>4.4 What about the shareholders?</td>
</tr>
</tbody>
</table>
4.4.4 Work Step Four: Reduce and Analyse Data

With the exception of the secondary data generated by other researchers, most of the primary data gathered by the researcher were qualitative in nature and in words. Given the basic research objective to describe and the uncomplicated qualitative findings generated from the interviews and social artefacts, the collected data was easily and sufficiently managed with simple to no technology. The NVivo software was initially considered, but it was concluded that the benefits would be negligible since it took time to learn the application while the straightforward data analysis could be accomplished manually. Discussions in the personal (Moriarty and Batson, 1982; Dibb., 1995; Siu and Bao, 2008) or individual (Valentine, 1993), and focus (McLarty, 2005) or group (Nelson and Frontczak, 1988), semi-structured interviews were by topics.

Accordingly, it was just a simple process of transcribing the hand written interview notes into electronic format organised by the four broad topics and lead questions shown in Table 4.3 and discussed previously. Separately, the secondary Governance and Transparency Index data that were in numbers were captured on an Excel spreadsheet for subsequent analysis. Data reduction and analysis entailed a summary and accumulation of the interview findings gathered from the individual and group discussions as well as from social artefacts, looking for common themes. In respect of the social artefacts, this involved the content analysis of newspaper articles, media and other organisational reports, and other collected documents containing primary data related to the research topic. To enable and facilitate the data reduction and analysis, the social artefacts were first organised manually into piles, by the four topics and their corresponding lead interview questions.

The philosophical and theoretical perspectives adopted with the choice of the abductive research strategy together with its underlying ontological and epistemological assumptions were applied in the data reduction and analysis. To revisit, the idealist ontology and the epistemology of constructionism adopted with the abductive research strategy were consistent with the philosophical and theoretical perspectives under the paradigm of interpretivism. Ontologically, social reality was viewed as the construction, conceptualisation, and interpretation of social actors. Epistemologically therefore, the researcher had to first enter the social actors’ world to collect their thoughts and interpretations of the social world from the insiders’ perspective. Subsequently and during the reduction and analysis of the research data,
the researcher reinterpreted the reality gathered to search for common themes describing the findings in the technical language of the social scientist.

4.5 Summary and Conclusion

Three gaps in past academic research and business studies on the state of corporate governance in listed companies provided an opportunity for this research. Past research and studies did not focus on the smaller listed company or consider theory, and tended to understand and describe corporate governance practices based on the companies’ self-disclosures in published documents. This study was dedicated to researching smaller listed companies, defined to be those with market capitalisation of less than SGD 500 million and which comprised more than 80% of all companies. The study applied the abductive research strategy to understand and describe corporate governance practices of companies from the perspectives of the social actors. Three types of data – primary, secondary, and tertiary – were identified and the first two types were collected in qualitative form, with the third in both qualitative and quantitative forms.

The conceptual model was applied to target directors and professionals through snowball sampling including, for example, members of the board, CEOs, CFOs, and individuals in professional practice. Individual and group semi-structured interviews were conducted to collect primary, new, and raw data, guided by leading questions in each of four categories of themes. These four groups of leading interview questions pertained to: attitudes and motivation; difficulties and problems; Singapore Code impact on practices; and changes to improve. The conceptual model was also applied in the reduction of the findings which are presented and discussed next in Chapter 5. Following thereafter, the findings were synthesised and analysed with the conceptual model to describe and theorise further in Chapter 6. Also discussed in Chapter 6 is the use of the triangulation method and tertiary data to validate and corroborate the research findings. Lastly, the philosophical approach was that of abduction and interpretivism with an idealist ontology, going from the insiders’ views (the epistemology of constructionism) to outside expert (reinterpretation of findings).
PART TWO:

REPORTING THE RESEARCH

SINGAPORE PRAGMATISM IN CORPORATE GOVERNANCE
CHAPTER 5
FINDINGS

Data Collection and Reduction

Figure 5.1 Flow of the Discussions on Research Findings

<table>
<thead>
<tr>
<th>Section / Sub-Section</th>
<th>Section / Sub-Section Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>5.2</td>
<td>Research Findings</td>
</tr>
<tr>
<td>5.2.1</td>
<td>Attitudes and Motivation</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Corporate Governance and Code Compliance Issues</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Impact of the Code</td>
</tr>
<tr>
<td>5.2.4</td>
<td>Improvement Actions and Changes</td>
</tr>
<tr>
<td>5.3</td>
<td>Summary and Conclusion</td>
</tr>
</tbody>
</table>

5.1 Introduction

The staging of the research in Part One of the thesis was comprised of three chapters on the literature searches; theory and the conceptual model; and the research methodology. Collectively, the respective discussions in the three chapters provided the contextual background, theoretical context, as well as the philosophical and theoretical underpinnings to the methodological framework adopted in the research. This is the first chapter to Part Two of the thesis containing three chapters on research findings, findings analysis, and conclusion that in combination provides a report on the research. Data collection and reduction are presented in this first of the three chapters, followed by synthesis and analysis of the findings in Chapter 6, and reflections on the research in the concluding chapter.

Prior to getting into the details, there are two administrative matters to take care of to ease into the presentation of the findings. Firstly, Figure 5.1 presented above provides an overview of how the research findings are laid out and discussed in this chapter. The layout of the research findings discussed here in sub-sections 5.2.1 to 5.2.4 follows the organisation of the four interview discussion topics previously presented in Table 4.3 of Chapter 4, Research
Corporate Governance Singapore-Style: Practices and Code Compliance among Smaller Listed Companies

Methodology. Secondly, it is again necessary to revisit the frequent and extensive reference to the Singapore Code or the Code and Code compliance in this chapter which had been previously defined. The Singapore Code or the Code refers to the Singapore Code of Corporate Governance first released in 2001 and last updated in 2012. Additionally, Code compliance refers to the Singapore Exchange requirement for listed companies to disclose their corporate governance practices, or otherwise explain any departure from the Code, in annual reports from 1 January 2003.

5.2 Research Findings

The goal [of qualitative research] is not to produce a standardized set of results that any other careful researcher in the same situation or studying the same issues would have produced. Rather it is to produce a coherent and illuminating description of and perspective on a situation that is based on and consistent with detailed study of that situation ... In fact, I would argue that, ... it is impractical to make precise replication a criterion of generalizability in qualitative work. (Schofield, 1993, cited in Blaikie, 2000, p 254)

Reliability and validity (Blaikie, 2000, 2010; Collis and Hussey, 2003; Bryman, 2004) are two aspects in determining the credibility of findings. Results are deemed reliable where they can be replicated in inductive (Blaikie, 2000, 2010), that is, repeated in positivistic studies (Collis and Hussey, 2003). Schofield (1993, in Blaikie, 2000) discussed the type of findings generated from qualitative research and the difficulty of replicating or corroborating findings with qualitative data. Some researchers argue that it is impossible to replicate findings using qualitative methods since in interviews researchers are the measuring instruments and each human instrument is different (Blaikie, 2000, 2010). Furthermore, Bryman (1988, in Blaikie, 2000, p 250) contends that “[i]n all probability, it is not replication that is important so much as replicability.”

Nevertheless and to revisit the methodological framework, the method of triangulation was applied to validate findings from the semi-structured individual and group interviews in a limited way. As summarised in Table 4.1 and 4.2 in the previous chapter, qualitative and quantitative data from secondary and tertiary data sources were also collected in Work Step Three of the research. These data were from social artefacts, in which 25 documents that provided qualitative data from secondary data sources were comprised of news reports and
### Table 5.1 Profile of Individual Semi-Structured Interview Respondents

<table>
<thead>
<tr>
<th>Reference</th>
<th>Position</th>
<th>Other Experiences (Past and Present)</th>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IIR 1</td>
<td>Non-Executive Chairman; Independent Director</td>
<td>CEO; CPA</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 2</td>
<td>Non-Executive Chairman; Independent Director</td>
<td>CEO</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>IIR 3</td>
<td>Executive Director; CEO</td>
<td>Independent Director</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 4</td>
<td>Executive Director; CFO</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 5</td>
<td>Executive Director</td>
<td>CFO; Audit Manager (public accounting)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>IIR 6</td>
<td>Independent Director</td>
<td>Corporate Restructuring</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 7</td>
<td>Independent Director</td>
<td>Audit Partner (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 8</td>
<td>Independent Director</td>
<td>Chief Investment Officer</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 9</td>
<td>Independent Director</td>
<td>Independent Training Consultant; Corporate &amp; Executive Trainer; School Teacher</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>IIR 10</td>
<td>Independent Director</td>
<td>Audit Partner (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 11</td>
<td>Independent Director</td>
<td>CFO</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 12</td>
<td>Independent Director</td>
<td>Audit Partner (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 13</td>
<td>Independent Director</td>
<td>Corporate Restructuring; CEO; CFO</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 14</td>
<td>CFO</td>
<td>Audit Supervisor (public accounting); Corporate Accountant</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 15</td>
<td>Audit Partner (public accounting)</td>
<td>Finance Committee (non-profit organisation)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 16</td>
<td>Director, Risk and Control Solutions (public accounting)</td>
<td>Corporate Internal Auditor</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 17</td>
<td>Independent Consultant</td>
<td>Corporate Internal Auditor; Risk advisory services (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 18</td>
<td>President (business organisation)</td>
<td>Lawyer</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 19</td>
<td>President (professional organisation)</td>
<td>Adjunct Professor; Partner, Risk Advisory Services (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 20</td>
<td>Co-Director (university research centre)</td>
<td>Professor; Independent Director and Audit Committee Chair</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>IIR 21</td>
<td>Vice-President (professional organisation)</td>
<td>Professor and Associate Dean (Curriculum and Teaching); Programme Director (public accounting)</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

**Total** 20 1

**Legend:**
(1) Individual face-to-face interview; (2) Individual telephonic interview via Skype

**IIR**: Individual Interview Respondent

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**Chapter 5, Findings**

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newspaper analyses dated from January 2013 to March 2014. Additionally, three specific tertiary sources of data comprising two Singapore researches presented earlier in the literature reviews, together with an Australian study on Governance Issues in SMEs provided both qualitative and quantitative data. The data collected from these social artefacts and reduced in Work Step Four of the research are not presented and discussed in this chapter. These tertiary sources of data applied to corroborate the primary data gathered from the 21 semi-structured individual interviews and the sole focus group interview are discussed in Chapter 6 on synthesis and analysis.

Summarised in Table 5.1 on the preceding page is a profile of the 21 individuals who participated in face-to-face semi-structured interviews. The table also shows the one individual who could not meet in person but participated in a telephonic interview via Skype instead. Table 5.2 on the next page profiles the seven individuals who signed up for the seminar cum focus group discussion. This summary table also discloses the five individuals who showed up at the event, and the three who stayed on for the group interview. Three among the seven event registrants had previously participated in an individual interview, two of the three attended the seminar to validate preliminary interview findings, and one stayed for the group discussion. Discussions in the individual and group interviews were similarly along the four topics summarised in Table 4.3 in the preceding chapter. These topics were based on the four ‘what’ research questions and were supported by lead questions listed in Table 4.3, to spur discussions and enhance data collection in the individual and group interviews.

To recap, the abductive research strategy together with the underlying idealist ontology and epistemology of constructionism was chosen to gather findings to answer the four sets of ‘what’ research questions. The four topics and accompanying lead questions in Table 4.3 guided discussions in the individual and group interviews, and also the collection of qualitative and quantitative data from the social artefacts mentioned above. Consistent with the ontological and epistemological assumptions adopted with the abductive research strategy, the findings gathered reflected the insiders’ view of social reality based on the social actors’ construction, conceptualisation and interpretation. The researcher reinterpreted these findings from the stance of an expert to describe them in the technical language of the social scientist. Data reduction consisted of developing themes from the raw research findings and the results are organised and presented next, by the four topics, in this chapter for subsequent analysis in the next chapter.
### Table 5.2 Seminar cum Focus Group Discussion Participants

<table>
<thead>
<tr>
<th>Reference</th>
<th>Position</th>
<th>Other Experiences (Past and Present)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Independent Director</td>
<td>Corporate Restructuring; CEO; CFO</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CFO</td>
<td>Audit Supervisor (public accounting); Corporate Accountant</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>GIR 1</td>
<td>Risk Manager</td>
<td>Audit Supervisor (public accounting)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In-House Legal Counsel</td>
<td>Lawyer</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>In-House Legal Staff</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIR 2</td>
<td>Executive Director, Business Risk Services</td>
<td>Audit Manager (public accounting)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(public accounting)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIR 3</td>
<td>Independent Consultant</td>
<td>Corporate Internal Auditor; Risk advisory services (public accounting)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7</strong></td>
<td><strong>3</strong></td>
<td><strong>5</strong></td>
<td><strong>3</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legend:**

1. Registered for the seminar cum focus group discussion
2. Also participated in an individual face-to-face interview
3. Was present at the seminar
4. Stayed for the focus group discussion

**GIR:** Group Interview Respondent

In each of the four sections which correspond to the four research questions, the processed research findings are organised under each theme developed during data reduction. Hence, each section heading reflects the four discussion topics and research questions, and the four sections contains two to four sub-sections each corresponding to the number of lead discussion questions under each topic. Reinterpretation of the research findings by the researcher are then described in the language of the researcher’s technical language under the respective developed themes. The processed research findings are presented in bullet points to avoid presentation clutter, as well as to facilitate easy retrieval for subsequent analysis in the
Corporate Governance Singapore-Style: Practices and Code Compliance among Smaller Listed Companies

next chapter. Shown in bracket at the end of each reinterpreted research finding, organised by developed themes, is the finding’s source, that is, either from the individual and group interviews or content analysis of documents. A schema of this presentation format is illustrated in Table 5.3 below.

Table 5.3 Schema: Presentation of Reduced Research Findings

<table>
<thead>
<tr>
<th>Heading/Research Finding</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section heading</td>
<td>By each of the 4 discussion topics corresponding to the research questions</td>
</tr>
<tr>
<td>Sub-section heading</td>
<td>By each of the 2 to 4 lead discussion questions under each topic</td>
</tr>
<tr>
<td>Heading to research findings</td>
<td>By each developed theme</td>
</tr>
<tr>
<td>Research findings</td>
<td>Reinterpreted by the researcher, in the researcher’s technical language, showing in bracket at the end the source of each research finding</td>
</tr>
</tbody>
</table>

[The remainder of the page is intentionally left blank]
5.2.1 Attitudes and Motivation

5.2.1.1 Views on Corporate Governance

A compliance burden
- In a company previously family-controlled, it is:
  - An added complication where corporate governance matters are of more importance to independent directors and executive directors have a hard time with a changing world. (IIR 1; IIR 14)
  - Seen as “not natural”; see further comments at 5.2.3.2, Extent of Changes in the Early Years. (IIR 7)
- Corporate governance is viewed as a chore that equates to a lot of work. Code compliance is taxing to staff, even to a chief financial officer who is accustomed to onerous reporting requirements, because it is largely an academic exercise. (IIR 6; IIR 14; IIR 20)
- Corporate governance is bothersome and burdensome. (IIR 7)
- Code compliance incurs additional costs and is viewed as impractical (IIR 10)

An obligation to comply
- Corporate governance is a necessary evil and hence, the tendency is to just do the minimum or find ways to get around it rather than embracing the spirit of the Code. (IIR 2; IIR 7; IIR 8; IIR 9; IIR 10; IIR 11; IIR 12; IIR 13; IIR 14; IIR 15; IIR 16; IIR 7; IIR 18; IIR 19; IIR 21; GIR 1)
  - Disclose as little as possible; worried about the competition (IIR 11)
  - Will not embrace 100% IIR 11)
  - Cultural. (IIR 15)
- Companies recognise that there is no choice but to follow the Code, in order to maintain the standing of a listed company. (IIR 3; IIR 9; IIR 11; IIR 12)
  - If the company can get things done by breaking rules, management will do it (IIR 11)
  - If they can go private for funding or have enough reserves, would delist and get out of an impediment (IIR 11)
  - If the company wants to attract investments, then corporate governance cannot be viewed as an added cost but more is expected and hence more to do (IIR 12)
- The board (especially the independent directors) and owner-managers feel compelled to follow the Code to avoid penalties. (IIR 4)
It is an afterthought, especially when the time comes for the annual corporate governance report preparation. Conceptually, the Code requirement is to comply or explain but in practice however, there is pressure to comply. (IIR 5)

- Would not care without guidelines, and if not required. (IIR 4; IIR 6; IIR 8; IIR 10)
- Afraid to break rules and do not want queries from the Singapore Exchange. (IIR 6)
- Taken for granted. (IIR 8)

Ethics and Responsibility

- Owner-managers in family-managed companies among the older generation can accept corporate governance better where honesty is present. (IIR 2)
- Owner-managers decided to embrace corporate governance once the family business went public. They accepted the basic principles for transparency in the company, and feel they owe it to the shareholders as it is their rights. Ultimately it is the integrity of the owner-manager that is crucial. (IIR 3; IIR 10)
- The thought of running a public company spurs owner-managers to recognise and accept the need for basic decency and not to abuse the privilege of a public listing. (IIR 5)
- Smaller listed companies were aware of the Code when listed (IIR 13)
  - The question is whether they believe in it or not.
  - They are likely to be not so serious about it
- Corporate governance is something ‘good’ to be done; if it is good, then it should be done (IIR 15)

Meaningless

- Companies had failed even with the Code. (IIR 3)
- Corporate governance does not mean anything. (IIR 9)
- Corporate governance is on the back burner and does not mean much as the focus is on profitability and strategy. (IIR 10)
- There are not many companies which are serious about corporate governance and/or the Code. (IIR 13)
  - S-Chips are a case in point
    - Chinese companies listed in Singapore but management and operations are based in China.
    - Besides being far removed physically, they are also outside of Singapore’s jurisdiction
They get listed in Singapore to get funding, and the management of some S-Chips soon finds ways to loot the company

Regulatory device, intervention; not business enhancement (IIR 11)
- Reasons for it
  - Regulators regard it as protection – to protect shareholders and the general public
  - Responsibility for being listed
  - Control and compliance purposes

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5.2.1.2 Motivation to Adopt Practices, and Embrace Comply or Explain

Attitude, awareness, and leadership among executive management

- Attitude of the substantial shareholder and CEO (IIR 4; IIR 7; IIR 10)
- Awareness and buy-in (IIR 8; IIR 10)
- Leadership of the substantial shareholder and CEO, and executive team share the same values. (IIR 9)
- The top guy has to believe in corporate governance for it to be accepted (IIR 13; IIR 16)

Corporate governance-firm performance link

- An unsettled debate
  - That investors are willing to pay a premium for the shares of a company with good corporate governance.
  - Inconclusive evidence, but there is anecdotal acceptance of the belief.

Profiling and self-promotion

- Truth in self-disclosures is doubtful. (IIR 3; IIR 10)
- Doing it for show and for recognition. (IIR 5; IIR 8; IIR 9; IIR 10; IIR 12)
- Business branding (IIR 11)

The resolve of independent directors

- Governance matters are of more importance to independent directors (IDs). Independent directors in active boards and the audit committee especially, push for practices and Code compliance. (IIR 1; IIR 6)
- Independent directors are more concerned, and the Audit Committee Chairman is on the ball. (IIR 6)
- Driven by professionalism and the pressure placed on the IDs. (IIR 12)
5.2.2 Corporate Governance and Code Compliance Issues

5.2.2.1 Problems and Difficulties

A stale board

- The tendency is to have the same people on the board, and who are getting older; no rejuvenation. (IIR 7)

Costs

- Owner-managers are cost conscious. (IIR 1; IIR 2; IIR 4; IIR 12; IIR 13)
  - All the more so in an ownership-management change situation (IIR 13)
  - Business survival comes first and corporate governance takes the back seat (IIR 13)
- Cost was the main reason for initial resistance. (IIR 2; IIR 6; IIR 7; IIR 8; IIR 9; IIR 10; IIR 11; IIR 12; IIR 14; IIR 15; IIR 19; IIR 20; IIR 21)
  - Besides independent directors (see next) - internal audit; risk management; independent financial advisors; consultants
- Can be quite substantial to get independent directors. (IIR 2; IIR 8; IIR 9; IIR 10; IIR 11)

Executive directors and management

- Rely on the CFO (IIR 6)
- Want to focus on business, not regulatory requirement (IIR 11; IIR 12)
  - Looking after own vested interests
  - Not likely to champion corporate governance

Family-business culture

- Owner-managers know the business well and do things their way without seeking advice and consultation. (IIR 2)
- There is an insider versus outsider divide, as staffs prefer and tend to approach the executive chairman only. In Chinese companies, staffs only want to deal with insiders only. (IIR 2)

Independent director

- Independent directors (IDs) versus executive directors (EDs)
  - Natural to be they versus us (IIR 12)
  - The tendency is to “screw” the IDs
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- Independent directors not there fulltime and other limitations but still need to sign-off on risk management and internal controls; a concern (IIR 112)

- IDs versus majority shareholder
  - A strong majority shareholder typically wins in disclosure disagreements, resulting from the tendency to appoint friendly parties (friends, consultants, previous financial controllers) to the board. (IIR 4; IIR 16)

- CEO versus CFO (IIR 12)
  - IDs depend on the CFO
  - The board needs to support the CFO
  - The CFO needs to trust the board to back him up

Minority institutional shareholders

- Getting more vocal (IIR 11; IIR 12)
  - Company had been put in defensive mode in the AGM which is taking more time (IIR 11)
  - Asking tough questions (IIR 12)

Ownership, control and management changes (IIR 113)

- May be the result of a reverse takeover or a loan default.
- New owner-manager may not understand corporate governance, and therefore do not know what to do.
- New owner/s need to make changes to turn around the company.
- The Code is the least of their concerns at this time.

Resources

- Smaller companies have less manpower, are limited by staff capability, not used to such staff infrastructure and tend to use a consultant instead of hiring to staff internally. (IIR 1; IR 3; II6; IIR 10; IIR 11; IIR 18)
- Places more work and responsibility on an already overloaded CFO (IIR 6)
- Finding independent directors the majority shareholder is comfortable with. (IIR 4)
- It is a situation of whether management is equipped to incorporate a corporate governance process and mechanism. (IIR 8)
- Unable to recruit the right people. (IIR 9; IIR 10; IIR 15; IIR 20; IIR 21)
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- Need to pay attract (IIR 19)

The comply or explain misnomer

- As the Code requirements got more stringent, non-compliance with the requirements could not be easily disposed of with explanations. (IIR 2)
- A farce (IIR 5)
  - The requirements are too prescriptive to be able to decide not to comply. (IIR 5)
  - Want to comply rather than explain. (IIR 8)
5.2.2.2 Challenging Code Principles and Guidelines

CEO duality

- Other issues often arise even where the chairman and CEO positions are held by separate individuals:
  - It is a matter of face for the founder-owner to desire the chairman position. An atmosphere of ‘no respect’ may prevail when an independent director is the chairman while the founder-owner is the CEO instead. (IIR2)
  - Where a trusted friend is appointed to be a ‘nominee chairman’ then that would not be in the spirit of the Code. (IIR 2)
  - The challenge becomes one of appointing a chairman with a ‘questioning’ mindset and who can maintain a mutual respect with the founder-owner CEO. (IIR 2)
  - When the chairman and CEO are related the latest Code changes require the board to be comprised of at least 50% of independent directors. Difficulty finding enough independent directors (IDs) (IIR 2; IIR 3; IIR 4; IIR 8)
  - A situation of who is in charge may arise (IIR 6; IIR 21)
- Cannot recruit a non-executive chairman, as the controlling shareholder still wants to run the company. (IIR 4)
- Growth in the smaller company is usually dependent on one or two individuals.
  - No choice but to comply now, as even Wee Cho Yaw at the United Overseas Bank (UOB) which had been provided a transition period previously had recently separated the two functions. (IIR 9)
- A balance of power issue (IIR 13)
  - Need lead-ID where not separated (a 2005 change).
  - Even in new rule that requires a majority (at least 50%) of IDs when separated roles are handled by related parties, it still depends on the quality of IDs.

Director tenure

- No ready pool of candidates makes nine years as a reasonable maximum difficult to meet, and may see smaller a board as a result. (IIR 1; see IIR 7 below)
- Independent directors are wary to sit on small cap boards. (IIR 3)
- The 9-year term limit is “really tough” (IIR 7; IIR 11); Singapore is small and the issues are (IIR 7):
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- The problem with access to the small and limited universe of independent directors (IDs). (IIR 7);
- How to approach new ones. (IIR 7);
- Owner-managers do not want competitors on the Board. (IIR 7); and
- It is not always possible to find IDs, and the tendency is to make “do with people you know”. (IIR 7)
  ✓ Shortage of professionally trained IDs - No “pals” or close relationship. (IIR 11)
  ✓ High accountability expected of IDs - people not keen to be IDs especially due to unfamiliarity with the company; would take it on only if the major shareholder is known (IIR 11)
- Up to the Nominating Committee to justify non-compliance (IIR 8)
  ✓ Companies prefer to keep existing and experienced IDs who already have knowledge of the company’s business model, risks and risk management process.

Internal audit
- The difficulties include:
  ✓ Too small to have own function (IIR 1; IIR 9); not many in smaller listed companies (IIR 7); do not see the value (IIR 13)
  ✓ Standards and quality issues in a small audit shop. (IIR 1)
  ✓ Need for the internal auditor to meet with others. (IIR 1)
  ✓ Cannot afford a full-time person (IIR 6)
  ✓ Not enough work (IIR 6)
  ✓ Staff retention is difficult given the lack of job training, rotation, and other issues (IIR 7)
  ✓ In-house governance issues; cultural views of authority; less transparency; and not a senior, strong, and independent enough voice. (IIR 1; IIR 9; IIR 11; IIR 13; IIR 19; GIR 2; GIR 3)
  ✓ Business is first (IIR 13)
  ✓ Even with an in-house IA – not given stature; depends on quality(IIR 13)
  ✓ Long-term – most see IA as stepping stone to CFO (IIR 13)
- The audit committee wants to have eyes and ears on operational issues and matters; owner-managers accept the need for internal audit (IA) as a necessary function; rely on in-house fulltime IA to enable sign-off on risk management and internal controls. (IIR 11)
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✓ But not line managers who have to explain discrepancies that the IA reports on. (IIR 11)

➢ Hence, a better alternative is to outsource to an accounting or consulting firm; the advantage from dealing with a third party is objectivity. (IIR 1; IIR 7)

✓ This is subject to the pros and cons of an in-house versus outsourced IA function (IIR 13)

Lead independent director

• Independent directors were reluctant to appoint one, fearing loss of face to the CEO and other executive directors. (IIR 1)

Remuneration disclosures

• Remuneration of top executives. Chose not to disclose as shareholders do not know if compensation is fair. It is not fair for shareholders to decide; one way is to use consultants. (IIR 3)

• The number of disclosures had increased, and while the requirements had gone above the spirit of the Code the value to investors is doubtful. (IIR 5)

Risk Management

• To set up a risk management process, beginning from adoption of a framework to the sign-off by directors at the end, is too onerous. It would take a few years to put the process in place given the need to get the audit committee on board and train the staff towards a risk management mindset. (IIR 2; IIR 14)

• An absolute statement expected by the Code makes it harder to make disclosures; the Singapore Exchange is asking for too much. (IIR 1; IIR 2; IIR 3; IIR 6; IIR 11; IIR 12; IIR 13; IIR 14; IIR 19; IIR 21; GIR 1; GIR 2; GIR 3)
  ➢ Absolute nonsense; no clear scope on what risk is (IIR 13)
  ➢ More stringent than US Sarbanes-Oxley which is focused on financial reporting risks (GIR 2)
    ✓ Easy for CEO/CFO to sign-off, but how to ensure things are in place especially in overseas entities?
    ✓ In most cases, independent directors learn of problems through the benefit of hindsight
  ➢ Negative assurance would seem to be more reasonable
  ➢ No sufficient time with public feedback; knee-jerk reaction and public pressure for action, especially as it related to China Sky

Chapter 5, Findings
- The company and especially the independent directors are being forced to be more risk averse; need to take risks to make money. (IIR 5; IIR 9; IIR 11)

- Most of the smaller listed companies do not have dedicated resources, and need guidance (IIR7; IIR 8; IIR 9). They tend to:

  - Relegate the function to the company secretary or financial controller, on a part-time basis. (IIR 7); or
  - Need an outside consultant or rely on internal audit. (IIR 8; IIR 12)
  - No choice but to comply, not because they are able to and execution is the crux of the matter. (IIR 9)
5.2.3 Impact of the Code

5.2.3.1 Pre-Code State of Corporate Governance

New concept
- Pre-Code, people who knew about corporate governance were restricted to those in professional practice and professional managers (IIR 13)
- Singapore Exchange Listing Manual; baseline requirements (IIR 16)
- Left to good habits (IIR 17)

Rating [On a scale of 1 to 10 (10 being excellent)]
- It was a ‘5’ in pre-Code days. (IIR 1)
- Tough to assess. (IIR 12; IIR 8; IIR 19)
- A range of 3 to 4 (IIR 14)

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5.2.3.2 Extent of Changes in the Early Years

**Rating** [On a scale of 1 to 10 (10 being excellent)]

- Tough to assess. (IIR 12)
- It was a ‘5’ (IIR 14)

**Theoretical**

- In the initial years the Code principles, such as, CEO duality, were seen as theory. (IIR 13)
- Not much awareness (IIR 15)
- Code response to fraud (IIR 17)

**Unnatural, and even unreasonable and unfair for the family business**

- The family business went public for three reasons, which were to raise capital; gain image, visibility, and profile; and to get out of having to provide personal guarantees on bank loans. At the initial public offering, the company sold as little shares as possible, less than 50%, to keep non-family shareholders in the minority. Therefore, corporate governance was seen as “not natural” for the family business since the owner-managers were self-accountable before the Code, but which now calls for accountability to the public. Owner-managers did not bother to spend time to read and understand the Code, and were reluctant to study and get educated on corporate governance. Lacking in understanding, they concluded in general that the Code was unreasonable based on hearsay. (IIR 7)
5.2.3.3 Code Impact Ten Years On

As a response to corporate financial scandals
- At the end of the day, it depends on the integrity of top management, and no degree of corporate governance guidelines would help. (IIR 8)
- Listed companies still get into trouble, but the Code created awareness (see the “more awareness” theme below). (IIR 8)

Current attitude among owner-managed family businesses
- The younger generation of owner-managers views the listed company as a legacy of the founder and the family patriarch. Hence, the tendency is to keep the listed vehicle on one side and conduct new businesses under unlisted companies. (IIR 7)
- There is risk exposure however, where the new business/es is/are not under the listed arm. (IIR 9)

More awareness
- Board network (IIR 8)
  - Less appointment of friends
  - The network is however, still needed
    - Like familiarity, as it is natural to go with familiarity for cohesiveness, common beliefs, and culture;
    - Yet, independence must be fulfilled or face questioning from bankers, auditors, and others
    - Cannot just rely on the Singapore Institute of Directors to recommend
- Independent directors
  - Independent directors (IDs) are more aware/alert and independent. (IIR 9; IIR 12; IIR 14)
    - A question remains on whether they have questioned or merely signed off based on the word of others (IIR 9)
    - Previously, tended to toe the line and just listened to a strong CEO (IIR 12)
  - IDs are now more careful to raise questions (IIR 8; IIR 12)
    - Partly due to the lesson from the Air Ocean case. (IIR 8; IIR 12; IIR 14);
    - Board discussions and decisions are minuted – a self-protective measure. (IIR 8); and
The current trend is to tell internal audit to consider the risks identified and assessed in the risk management process, in order to overcome gaps in risk controls. (IIR 8)

IDs need to pay attention, know what they are doing, and not take things at face value. (IIR 12)

Now IDs cannot be removed easily and are more protected to speak out; reasons for removal have to be disclosed making it more difficult for the CEO to remove someone he/she dislikes. (IIR 12; IIR 14)

In general

- Did not care initially, but now more or extremely aware. (IIR 6; IIR10; IIR 11; IIR 14; IIR 15; IIR 16; IIR 17; IIR 18)
- “Has done good” (IIR 12)
- Corporate governance had improved “a lot” (IIR 7)
  - Especially among “those [companies] which want excellence”. (IIR 7)
  - A very obvious improvement - most companies had implemented and complied with the requirement for board committees; previously it was just for audit but the Code had included the nominating and remuneration committees as well. (IIR 8).
  - Corporate governance awareness now is strong and owner-managers are familiar with Code requirements. They want to comply and not resist anymore, even though it is not mandatory. (IIR 8)
- The Code ten years on (IIR 13)
  - Since then, the Code is the corporate governance version of the ‘bible’ (IIR 13)
  - Most now understand what corporate governance is about, at least the theory
  - But practice is the issue; many still do not know what good practice is (“doing is tough”)
  - Still a challenge

Useful guidelines

- The Code had been incredibly valuable, although more so to the independent directors than the executive directors. It had provided a means for independent directors to question the company, and to get things done much as checklist. (IIR 1; IIR 10)
- Things get formalised, for example, compelled to appoint internal auditor and board committees. There is accountability when things go wrong. (IIR 4)
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- On hindsight, the Code is seen as a good thing since listed companies need corporate governance guidelines, not because of dishonesty but to keep management on their toes. (IIR 6)
- Good to have the Code, but:
  - “The devil is in the details”; and
  - There is a need to have a good feedback mechanism to counter the tendency for more and new requirements; refer to 5.2.4, Improvement Actions and Changes - Regulators (IIR 7)
- As the world gets more complex, it is getting more useful even to the executive directors and management. (IIR 10)

No change
- Just putting up with the cost, but happy to be left alone. (IIR 4)
- No much changes; not clear that there had there been any good out of it. Yet fraudulent activity in companies still had happened and there still had been some black sheep. The Code was good intention but naïve; the law abiding will always comply and crooks will find ways to cheat. Since laws already exist, the need for the Code is doubtful (IIR 5)
- To the entrepreneurial mind, the business is all about taking risks and making money, and there is no need for corporate governance. (IIR 2; IIR 5; IIR 9; IIR 10; IIR 11; IIR 14; IIR 16)
- No change (IIR 20)

Rating [On a scale of 1 to 10 (10 being excellent)]
- Tough to assess. (IIR 12)
- A range of 6 to 7 (IIR 14)
5.2.4 Improvement Actions and Changes

5.2.4.1 Regulators

A Code for Smaller Companies

- Understand the needs of smaller companies which are family-owned and owner-managed. Question the value of onerous disclosures, for example, remuneration. Too many disclosures are just information overload. (IIR 5)

- Relax disclosure requirements for owner-managed companies which should be distinguished from companies managed by professional managers, such as the government linked companies. (IIR 5)
  - The suggestions are to:
    - Eliminate waste of resources from having to make annual disclosures in annual reports;
    - Keep it simple so as not to lose the message;
    - Allow website disclosures instead especially for owner-managed companies, and
    - Permit voluntary annual report disclosures to once every five years.

Code is ineffective

- The requirement to comply or explain becomes meaningless when the real reason for non-compliance is not disclosed, for example, on remuneration matters. (IIR 2)
- Make the Code mandatory, but maintain balance (see cost-benefit balance below) and give time for the need to embrace the spirit of it to ‘sink in’. (IIR 2)
- Code has no bite and not effective, when one could just explain if they do not comply. (IIR 3)
- The Code is not meant to be clear, and is just a guide. It is just a paper exercise to explain, for example, the risk management process when it may not in fact be in place because it is not audited. Definitely not into the spirit of comply or explain; it is just a paper exercise and it is easy to just get someone to write it up. (IIR 4)
- It is too prescriptive. Let companies decide what needs to be addressed. (IIR 5)

Conflict of interest

- Is the Singapore Exchange in a conflicting role as the regulator?
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✓ Regulatory and operational functions will be separated when the organisation is large enough. (IIR 9)
✓ For example, the regulatory and operational functions at both the Civil Aviation Authority of Singapore (CAAS) and the Port of Singapore Authority (PSA) are not split.
✓ Talent pool may be limited which may be recruited but a critical may yet be lacking to justify.

Cost-benefit balance

• Regulators generally had not been too hard except on risk management. (IIR 1)
  ➢ Resist reproducing what the US and Europe had done where the compliance costs is greater than things can go wrong. (IIR 1)
• Afraid of overkill. (IIR 11)
  ➢ Don’t want the business community to react.
  ➢ Other agencies facilitate business growth
    ✓ Counter to regulations
    ✓ For example, the EDB and IRAS incentives
  ➢ Generally business friendly
  ➢ Did a lot with the last round of Code changes. (IIR 2; IIR 3)
✓ Balance is needed, for example, the framework to detect fraud is not practical.
✓ However, there is a need to keep pushing for Code compliance; otherwise, it will take longer for the spirit of the Code to sink in.

Crux of the problem

• There is a tendency to:
  ➢ “Just regurgitate best practices” from the US, UK and Australia; and
  ➢ “[Not] accept feedback” (IIR 7)
• “We’re Asian” and need to “be a frontier to do things Asian”, and therefore should:
  ➢ Think like the first generation of leaders, for example, Lee Kuan Yew and Goh Keng Swee, and
  ➢ Not just “[follow] others blindly just to have it”. (IIR 7)
• Too prescriptive; lack experienced officers; asking company wrong questions (IIR 13)
• Going after independent directors rather than perpetrators (IIR 13)
Engage the listed companies

- When listed companies wanted to engage the Singapore Exchange (SGX) (IIR 7)
  - The SGX did not meet with them;
  - They were “scared to commit” and told the listed companies to “just comply”;
  - This created a problem as the listed companies ended up consulting lawyers.

- “To what extent to get feedback” (IIR 7)
  - Resist the tendency to focus on lawyers and accountants who do not “fight for market participants”
  - “Discuss, not just ask for feedback”
    - “Be prepared to debate” with the “attitude of fostering” a “dynamic” and “relevant” capital market;
    - Need to have a good feedback mechanism; and
    - “Foster energy and enthusiasm” by embracing, not ignoring listed companies which approach the SGX to provide feedback on onerous rules that get too troublesome and burdensome.

- In respect of S-Chips (Chinese-based companies listed in the Singapore Exchange) as another example, there is a need to:
  - Engage; dialogue; and not project a “too busy attitude”; and
  - Communicate what the regulators want, so that S-Chips do not just engage lawyers; and
  - Encourage cross-border discussions:
    - On not just issues here but regulatory conditions in China;
    - To familiarise with their practices and to take the “pulse on the community”; and
    - To speak their language, and not just expect them to have to learn English.

- Too extreme in dealing with smaller companies (IIR 12)
  - The Singapore Exchange throws things at you
    - Not afraid to call you up
    - Look at it; then tone down
  - Treating big company differently?
    - Need to be less judgmental
    - Do not overreact
Independent directors’ role

- Expect independent directors (IDs) to be facilitators rather than watchdogs to challenge management. (IIR 2)

- It is onerous enough as it is. Do not mandate IDs as watchdogs making it more difficult. This would defeat the purpose as IDs would either, run the company and stifle decision making, or quit sitting on small company boards altogether. (IIR 3)

Making it mandatory

- Director training (IIR 8)
  - Make it a requirement to obtain:
    - Certain core education hours; and
    - A fundamental appreciation.
  - Include certain aspects of the Listing Manual under the Securities and Futures Act to make it more punitive (IIR 8)
    - Not to legalise all aspects; and
    - Not to punitive.
  - Push needs to come from regulators, not the CFO or others; state requirements clearly (IIR 14; IIR 17)

Self-enforcement

- Regulators have not done much in this area (IIR 4; IIR 14; IIR 16)
  - Do not compel. Is the purpose of the Code to penalise all, to catch the bad ones, or guidelines in case something bad happens?
  - The company can still live with it even if the Code gets enhanced, but if it gets any more difficult it would then get unreasonable and not serve any purpose.

- Rather than the current “top-down” approach (IIR 7)
  - Encourage best practice;
  - “Use the Code as [the] carrot, not stick”;
  - Develop a “culture” to “do it from within” and “not forced on”; and
  - For example, good and responsible directors rotate themselves out, and self-renew.

- Code compliance is currently not mandatory, as in not legislated (IIR 10)
  - Not advocating for it be it made mandatory;
  - “Not possible” to do so.
The “End Game”

- “Where do we want to go?” (IIR 9)
  - For example, in wealth management it is to attract investments.
- Make money or regulate? (IIR 21)

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Achievements

- Doing alright. (IIR 1; IIR 2)
  - Had created awareness. (IIR 9; IIR 10)
- Keeping interested parties informed of changes. (IIR 1)
- They, including short sellers and the press, serve as a secondary watchdog and intermediary for minority to flush out company issues and shortcomings. (IIR 3)
- Institutions and organisations with an interest in corporate governance among listed companies:
  - Already are organising and offering training courses, but see improvements below. (IIR 8)
  - The Securities Investors Association Singapore (IIR 8):
    - Had done enough to organise and offer corporate awards;
    - But, not all companies go for awards.
  - Set up for different reasons; corporate governance helps to fulfil their roles. (IIR 11)

Improvements

- In respect of relations with regulators, need to influence change rather than be reactive to changes and not 'blow with the wind'. (IIR 2)
  - Tend to support the regulators and toe the line. (IIR 7)
  - Tend to go along, happy that:
    - Someone started the movement
    - The Monetary Authority of Singapore is taking the lead
    - Cannot be prime movers / drivers
    - Just endorsers
- As advisors, auditors and lawyers must lead and get their clients to do more as management tend to act for themselves rather than the shareholders. (IIR 2)
- Protect the public when it is the people versus the client. Currently, not tough enough and think of themselves too. This is likely due to appointment for a fixed period and therefore, less likely to push thinking of the job and billing more fees. (IIR 2)
  - “Champion the participants”, not just “pretending” to. (IIR 7)
  - Institutions/organisations only “sell” themselves (IIR 9)
    - Neither helping smaller listed companies, nor
    - Fighting for them
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- Benefits to listed companies
  - None to smaller companies. (IIR 4)
  - The current issue is on what and how to organise and offer essential training courses. (IIR 8)
- Increase the base of directors (IIR 9)
  - Categorise by industry and skill specialisation
  - “Hope they can open doors”
- Too passive (IIR 12)
  - No updates
  - Institute of Chartered Accountant Singapore and CPA Australia
    - Not pushing corporate governance besides CPE requirements
    - For example, director training
  - Will not work; listen more to regulators (IIR 14)

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Advice on the initial public listings

- It is better for smaller companies not to get listed, especially when there is no need to raise funds in the capital market. (IIR 3; IIR 9)
  - Costs
    - Costs of being listed, such as, paying dividends and compliance costs may exceed interest expense. (IIR 3)
    - Costs for compliance obligations, including appointment of independent directors (IDs) and fees for a big name auditor. (IIR 9)
  - Difficulty finding IDs since those who are able may not be willing to serve, and the company likely ends up with inexperienced IDs. (IIR 9)
  - Not to list even up to SGD 100 million (in the past, companies would list to raise just SGD 30-40 million just for face), as it is only worth the costs for SGD 500 million or more; better to go for private equity or seed fund. (IIR 9)
- List for the right reasons: reputation; market purpose; raise funds; want staff to be proud and suppliers to be comfortable. Calculate the costs before listing and bear with it and accept as cost for doing business. (IIR 4)

Board of Directors

- General
  - The board should not take a top-down approach but encourage and cultivate an engaging attitude within the company. (IIR 7)
- Independent directors
  - Need to recruit independent directors who believe in CEO-duality as well as a strong and professional audit committee chairman to make risk management more comfortable. (IIR 3)
  - Need to play an active role (IIR 16)

Director Training

- Attend training courses
  - Owner-managers are entrepreneurs and good managers at making money; they know a little about corporate governance but not the essence of it. (IIR 2)
  - Wait for the older executive directors to retire
    - 10 years is not enough time (IIR 9)
    - The younger generation is more used to attending training (IIR 2; IIR 10; IIR 13), and their thinking helps. (IIR 9)
✓ Not easy to change attitudes (IIR 13; IIR 14; IIR 19)
  ➢ Executive directors typically do not go for training (IIR 9; IIR 10; IIR 13; IIR 14; IIR 18)
    ✓ Their established “system” is “work and make money” (IIR 9)
    ✓ They would rather be out on the golf course closing deals and making money (IIR 10)
    ✓ Need to see benefits (IIR 13)
    ✓ A matter of education; see benefits of listing (prestige); may not appreciate how to practice good corporate governance (IIR 13)
    ✓ For example, Kenny Yap at Qian Hu has a clear idea of corporate governance, meaning “he gets it” but while it may look good from the outside what is inside? (IIR 13)
    ✓ Not compulsory (IIR 14)

Generational Issues

- The third generation in a family-owned and managed business is more likely to embrace corporate governance. (IIR 1; IIR 10)
- It is a generational issue; the younger generation is more educated on the subject. (IIR 2)
- On the thought as to whether the smaller listed company would one day embrace the spirit of the Code (IIR 10; IIR 11)
  ➢ It will never happen (IIR 10); nothing will (IIR 11) happen.
  ➢ It will always be compliance-focused (IIR 10); will do the minimum (IIR 11).
  ➢ Will live with it, and the goal is no questions from the regulators. (IIR 11)
  ➢ It may need a generational change
    ✓ Where the younger generation would have grown up with the Code.
    ✓ They would perhaps be more open to acceptance.
    ✓ As opposed to the initial resistance some of the older generation when the Code was first released.

Internal Auditors

- Provide skills training and job rotation. (IIR 7)

Top management leadership

- Corporate governance takes more work as the business is affected; for example, the top must push risk management, otherwise the staff will not care. (IIR 2)
- Requires the vision, motivation of the CEO-main shareholder, who must want to:
Grow the company and succeed; and

Become a significant listed company which strives to:

- Achieve “reputation of brand image”;
- Be regarded by regulators and the investing community;
- Associate with known and reputable people sitting on other boards, invite them to serve, and avoid the tendency to have the same people on the board; and
- Improve corporate governance quality, form a varied board with a lawyer, accountant, and practitioner (in the company’s core business) among the independent directors. (IIR 7)

- Practice the spirit of the Code (IIR 17)
5.2.4.4 Shareholders

Background information and general observations

- Institutional Investors  (IIR 7; IIR 10)
  - Singapore is not like the US with big players
  - Some investment funds and foreign investors are quite active in Singapore
  - Funds and other institutional investors are not active. (IIR 10; IIR 13)

- Retail
  - There is no one to represent the minority shareholder. (IIR 4)
    - Retail investors rely on the Securities Investors Association Singapore to represent them. (IIR 10)
    - Too many holding small lots to enable building up to a cohesive force. (IIR 10)
  - Culturally,
    - Retail shareholders’ attitude is selling rather than staying on to fight. (IIR 3)
    - They buy or sell based on whether they like the company’s branding, personalities, or if the shares are priced too low. (IIR 7)
    - Liquidate, rather than make changes and buy/sell to make a quick profit. (IIR 9)
    - They are share flippers. (IIA 10)
  - Many are “loyal shareholders” holding the a company’s shares for years, for example, OCBC Bank (IIR 7);
  - They tend not to attend AGMs to understand the issues but make investment decisions based “on other factors” (IIR 7); and
  - The situation is “not real”, in the sense that “will people ever come forward?”
    - For example, many local SMRT (a local train and bus service provider) drivers had grievances but did not speak up and a large majority supported the strike by the Chinese drivers (IIR 7).

AGMs

- Negative observations
  - An extremely painful experience arising from the expected practice of serving buffet lunches, and the preponderance of retirees among shareholders. (IIR 1)
  - Regulators should allow non-shareholders, such as analysts, to ask questions. (IIR 1)
  - Inactive shareholders and few attend the AGM. (IIR 2)
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- Queries raised, if at all, are not the right questions. For example, they ask about
  the food rather than issues that matter. (IIR 2)
- Not really interested even if they attend the AGM; they go just to eat. (IIR4)
- Cannot do more (IIR 11)
  ✓ Don’t understand corporate governance

Positive observations
- Had been more active in the last five year, that is, more participative in
  questioning the board and company performance. (IIR 3; IIR 13)
- An obvious change in shareholders who attend AGMs had been that they now
  come prepared to ask relevant questions. (IIR 8)
- Retail are “more vocal” now about director fees; see further improvements below.
  (IIA 10)
- Both institutional and retail investors had improved (IIR 12)
  ✓ More demanding.
  ✓ Questioning more now.
  ✓ Attendees at AGMs are more professional; previously, just happy with
    dividends and attended AGMs for the food.
  ✓ Now they tend to write directly to the Singapore Exchange.

Further improvements
- Need to be more robust in asking for more information in company disclosures. (IIR
  2; IIR 21)
- Be a sophisticated investor, and be able to understand the risks companies’ are taking.
  (IIR 9)
- While more vocal (see positive observations above), retail investors are in the “wrong
  direction” (IIR 10)
  ✓ Standards are still lacking.
  ✓ Retail investors going through the financial statements are minor exceptions.

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5.3 Summary and Conclusion

Twenty-five persons participated in individual semi-structured interviews and a focus group interview conducted to collect answers to four research questions, ultimately to describe corporate governance practices and Code compliance among smaller listed companies. The Code refers to the Singapore Code of Corporate Governance, and smaller listed companies include those listed on the Singapore Exchange with market capitalisation of less than SGD 500 million. Both data collection and reduction were organised under four topics relating to the four research questions, with a total of 11 lead questions. These four main and 11 sub-categories of lead research questions which generated findings that were reduced to a total of 55 themes are summarised in the Table 5.4 below.

<table>
<thead>
<tr>
<th>Main Categories</th>
<th>Sub-Categories</th>
<th>No of Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Attitudes and motivation</td>
<td>1.1 Views on corporate governance</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>1.2 Motivation to adopt practices, and embrace ‘comply or explain’</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>9</td>
</tr>
<tr>
<td>2 Corporate governance and Code compliance issues</td>
<td>2.1 Problems and difficulties</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>2.2 Challenging Code principles and guidelines</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>15</td>
</tr>
<tr>
<td>3 Impact of the Code</td>
<td>3.1 Pre-Code state of corporate governance</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3.2 Extent of changes on the early years</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>3.3 Impact of the Code ten years on</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>10</td>
</tr>
<tr>
<td>4 Improvement actions and changes</td>
<td>4.1 Regulators</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>4.2 Business and professional organisations</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>4.3 Companies</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>4.4 Shareholders</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>55</td>
</tr>
</tbody>
</table>

A key highlight of the findings to the question of what corporate governance is to smaller listed companies (SLCs) was best reflected in the words of two individual interview
respondents. One respondent mentioned that it would depend on who one talks to (IIR 14), and the other concurred that it would depend on who you ask (IIR 21). Whilst this beginning research question elicited findings that were reduced to five themes, there was however a general consensus that did emerge. A companion question pertaining to the motivating factors that cause SLCs to adopt good corporate governance practices and embrace the Code’s ‘comply or disclose’ philosophy produced another five themes.

The two lead questions to probe the difficulties and other issues that SLCs face in corporate governance and Code compliance led to a combined total of 15 themes that were not unexpected. Unsurprisingly, most respondents had little to no comments on the first two lead questions on how the Code had impacted corporate governance in SLCs compared to pre-Code days and in the mid-term period. These two lead questions generated five themes combined, while the last lead question on the impact 10 years on prompted findings that were reduced to five themes alone. Finally and expectedly, the four lead questions in the last category to explore improvements and changes needed among four principal corporate governance stakeholders spawned the most themes for regulators followed by the SLCs. A synthesis and analysis of the research findings which includes a validation of the results via the method of triangulation, albeit in a limited way, follows next in Chapter 6.
6.1 Introduction

Following reduction of the data collected in the research which were summarised in Chapter 5, this chapter presents the synthesis and analysis of the findings. It is set out in two sections, commencing in section 6.2 with a description of the practices and Code compliance among smaller listed companies (SLCs). This description is based on the researcher’s reinterpretation of the perspectives of social actors, consistent with the idealist ontology and epistemology of constructionism adopted together with the abductive strategy. Then section 6.3 presents a conceptual framework to further theorise why things are the way they are with corporate governance practices and Code compliance among SLCs. This further theorising applied the conceptual model developed in Chapter 3, comprising of an abstract-analytical model generated from initial theorising together with a set of sensitising concepts on stewards and stewardship. The abstract-analytical model itself was constructed from three sets of theory-derived sensitising concepts developed from theory discussed in Chapter 3.
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As in the presentation of the research methodology in Chapter 4 and the findings in Chapter 5, the definitions of certain terms frequently referred to in this chapter need to be revisited. The Singapore Code or Code refers to the Singapore Code of Corporate Governance which the Singapore Exchange (SGX) had incorporated into its Listing Manual. Code compliance refers to the SGX’s continuing listing rules that require listed companies to disclose compliance with the Code principles or otherwise disclose reasons for departure therefrom. The corporate governance practices of, and Code compliance among, smaller listed companies or SLCs in short is the fulcrum of the research. Lastly, SLCs are defined to include those with market capitalisation of less than SGD 500 million, and they make up more than 80% of all companies listed on the SGX.

6.2 Practices and Code Compliance from the Lens of Social Actors

Figure 6.2 Organisation of the Discussion and Analysis

<table>
<thead>
<tr>
<th>Sub-Section</th>
<th>Sub-Section Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2.1</td>
<td>Attitudes and Motivation</td>
</tr>
<tr>
<td>6.2.2</td>
<td>Corporate Governance and Code Compliance Issues</td>
</tr>
<tr>
<td>6.2.3</td>
<td>Impact of the Code</td>
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<tr>
<td>6.2.4</td>
<td>Improvement Actions and Changes</td>
</tr>
<tr>
<td>6.2.5</td>
<td>Corroborating Findings from Secondary and Tertiary Data</td>
</tr>
</tbody>
</table>

Descriptions in this section follow the orientation of the four topics and the respective lead discussion questions under each topic. This organisational approach was applied in the reduction of primary data collected from the individual and focus group semi-structured interviews, as well as secondary and tertiary data from the content analysis of documents. Categorised into four sub-sub-sections from 6.2.1 to 6.2.4 shown in Figure 6.2 above, the discussion and analysis first draw on the reduced primary data summarised in the preceding Chapter 5. The discussion and analysis begins with the attitudes and motivation within smaller listed companies (SLCs) to embrace corporate governance practices and Code
corporate governance. It transitions to the issues faced in corporate governance, then the impact of the Code on practices, ending with the actions and changes to improve practices and Code compliance among SLCs.

In sub-section 6.2.5, the discussion and analysis then employed reduced secondary and tertiary data that were also collected in Work Step Three of the methodological framework summarised in Table 4.1, Chapter 4. More specifically, the secondary and tertiary data were collected from the review of social artefacts, that is, the content analysis of documents. Secondary data included 25 documents containing news reports and newspaper opinion articles but restricted to the period from January 2013 to the date of this thesis that were relevant to the research. In respect of the tertiary data, they were culled from two Singapore business studies, one in 2007 and the other an annual corporate governance index, along with a 2009 Australian academic research. The purpose was to apply the method of triangulation to validate some of the findings based on primary data generated from the individual and focus group interviews with the secondary and tertiary data.

6.2.1 Attitudes and Motivation

6.2.1.1 Views on Corporate Governance

While opinions of the individual and focus group interview respondents on how smaller listed companies perceived corporate governance and Code compliance were expectedly varied, they could nevertheless be broadly categorised under five themes. They could be described as, in descending order of the frequency of mentions, an obligation to comply; a compliance burden; a responsibility; meaningless; and a regulatory device. Among the five themes, the view that corporate governance and Code compliance is an obligation to comply was a de facto consensus. There was a widespread view that smaller companies would not care about corporate governance if it was not required and as one executive director shared, they would be happy to be left alone.

The lament of a compliance burden is real, especially for a company that is still largely family-owned after a public listing and is owner-managed. A drastic change from being self-accountable to being told of accountability to shareholders and other stakeholders had been difficult for owner-managers especially where they retained a majority shareholding. Related to the two themes that Code compliance is an obligation and a burden was another that viewed corporate governance and Code compliance as an interventionist regulatory device.
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which does not enhance business. To the regulators, corporate governance and Code compliance is necessary to protect the investing community, that is, both the shareholders and the general public at large. Regulators and other stakeholders had promoted corporate governance as necessary for risk control and Code compliance purposes, an ethical responsibility that had resulted from being listed.

Figure 6.3 Approaches to Risks-Opportunities-Controls (Revisited)
(The Abstract-Analytical Model, incorporating enterprise risk management concepts, organisational behaviour theory, and metaphors)

To be sure, certain owner-managers had accepted the responsibility that comes with being a public company and as one independent director observed, the honest and ethical owner-manager found it more palatable. Most owner-managers focused on profitability and strategy, were sceptical about the purported but inconclusive link between corporate governance and firm value and viewed the Code to be meaningless. These five themes that surfaced from individual interviews led to initial theorising in the abstract-analytical model developed in Chapter 3, and reproduced in Figure 6.3 above. This abstract-analytical model revisited portrays the controlling regulators as diametric opposites to the hard charging, risk-opportunity conscious entrepreneurs who want to be unobstructed in pursuing risks to make money. Further theorising on corporate governance in smaller listed companies is discussed later in section 6.3, building on this initial theorising which formed the conceptual model that provided context to the research.
4.2.1.2 Motivation to Adopt Practices, and Embrace Comply or Explain

Four motivating factors had been suggested to be behind what pushes some smaller listed companies to embrace corporate governance practices and the Code’s requirement to comply or explain more readily. The most frequent suggested theme was the attitude, awareness, and leadership among executive management, and the preceding analysis showed that attitude comes from being ethical and honest about accepting responsibility for corporate governance. Awareness is related to the acceptance for responsibility which recognises that being publicly listed is a privilege to access the capital market and comes with the requirement to be held accountable. Leadership of the majority shareholder in setting the tone at the top for ethical and responsible behaviour is a critical influence within the organisation.

Where this influence spreads and leads to awareness and buy-in from other senior executives and staffs, then an ethical culture can take hold in the organisation. This motivation theme comports with stewardship theory and servant leadership theory reviewed in Chapter 3, and which led to the two sensitising concepts of ‘stewards’ and ‘stewardship’ incorporated into the conceptual model. Ethical owner-managers acting in the best interest of the company fit the description of Theory Y behaviour, as opposed to Theory X behaviour which describes managers who pursue their own interests. Antithetical to agency theory, stewardship theory informs the scenario of an ethically responsible owner-manager growing the company in the interests of all stakeholders.

A strong audit committee headed by a chairman serious about corporate governance and who leads the independent directors to push the organisation towards Code compliance had been cited as another motivating factor. Then there were owner-managers who saw good corporate governance practices as a good profiling opportunity; however, this motivation had been perceived as in the words of one respondent, “doing it for show”. The themes of the three motivating factors analysed – executive management attitudes, awareness, and leadership; the resolve of independent directors; profiling and self-promotion – formed the basis for further theorising discussed later in the chapter. Another motivating factor suggested by just one of the interview respondents come under the theme of the alleged link between corporate governance and firm performance or value. It was encouraging to note that the respondent wisely recognised the inconclusive evidence on this unsettled debate which had been analysed earlier in the literature review in Chapter 2.

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6.2.2 Corporate Governance and Code Compliance Issues

6.2.2.1 Problems and Difficulties

Expectedly, problems and difficulties faced in corporate governance and Code compliance generated numerous comments from the interviews and the data reduced under nine themes was a close second to the discussion on regulators. This was expected given two themes that surfaced from the preceding discussion on how corporate governance in general and Code compliance in particular had been viewed by smaller listed companies (SLCs). Revisiting, the overriding consensus was that most SLCs would not be bothered with corporate governance and Code compliance if it was not a regulatory requirement built into the Singapore Exchange’s Listing Manual. Furthermore, to the individuals tasked with governance and who were directly responsible for corporate governance and Code compliance in their companies it was seen as, in the words of one, “bothersome and burdensome”.

Unsurprising, cost and resource constraints were the most mentioned under the lead discussion question of problems and difficulties faced in corporate governance and Code compliance. Being shrewd businessmen, the entrepreneurial owner-managers were expectedly and understandably cost-conscious and cost were cited as the main reason for the initial resistance to Code compliance. One executive director who is also the CEO shared that independent directors can cost quite a substantial sum to bring on board. For this reason, the latest requirement for at least 50% independent directors in the event of issues associated with the matter of CEO-duality could be debilitating to the smaller company’s finances. The majority of smaller listed companies are ill equipped to incorporate a corporate governance process and mechanism, and end up using the services of an external consultant rather than building up in-house capability.

Besides the issues raised summarised under the two themes of ‘costs’ and ‘resources’, observations with the theme of ‘independent directors’ (IDs) brought up problems and difficulties IDs faced in SLCs. Increasing Code compliance requirements led to the general perception that IDs had been turned into watchdogs for the regulators, what one ID described as resulting naturally in a “they versus us” situation. In the scheme of the abstract-analytical model revisited earlier in Figure 6.3, the executive directors (EDs) comprising the CEO and other owner-managers who are likely family members had also become diametrical opposites. One ID mentioned that the tendency had been to “screw the IDs” rather than cooperating willing, and IDs were perceived as eager to increase operating costs just to meet compliance
requirements. Additionally, the strong majority shareholder and CEO and/or Chairman who had the support of friendly parties appointed to the board would invariably win in disagreements over disclosures. Furthermore, IDs depended on the CFO for information on company operations and in disclosures disagreements between the CEO and CFO, the CFO had to be able to trust that IDs would provide backing.

Among the remaining six themes developed from the interview respondents’ observations, three themes relating to a stale board; family-business culture; and ownership, control and management changes were each opined by one interviewee only. Accordingly, the remaining discussion and analysis will focus on synthesising the multiple respondent observations and opinions grouped under the three remaining themes. First, under the theme of executive directors (EDs) and management two IDs observed that these individuals only want to focus on the business and not regulatory requirements. Hence, they were not likely to champion corporate government in their companies and another ID added that EDs and management relied on the CFO to handle the role instead. These observations of the respondents were also taken into consideration and had been reflected in the abstract-analytical model in Figure 6.3 revisited earlier.

Second, minority institutional shareholders had been getting ever more vocal in raising tough questions in the annual general meetings (AGMs). This phenomenon had resulted in putting members of the boards and management on the defensive, and AGMs had been taking more time. Third, with the ever increasing regulatory requirements added by the Singapore Exchange (SGX) to its Listing Manual, the ‘comply or explain’ philosophy adopted in the Singapore Code had morphed into a misnomer. One ED described the situation “a farce” since the requirements had become too prescriptive to preclude any decision not to comply, and a CFO felt the SGX had gone beyond the Code requirements. An ID concurred with this observation, and yet another ID lamented that as Code requirements had become more stringent non-compliance could not be easily explained away.

### 6.2.2.2 Challenging Code Principles and Guidelines

With six themes derived from the observations and opinions of interview respondents, this area of Code compliance shared third place with the discussion on improvement actions and changes needed in smaller listed companies. The six challenging Code principles and guidelines cited by the respondents, in descending order of the frequency of citations, were: risk management; internal audit; CEO-duality; director tenure; remuneration disclosures; and
lead independent director. The individual respondents mentioned in the preceding discussion on problems and difficulties who had decried the farcical face of ‘comply or explain’ no doubt had risk management in mind. Synthesis and analysis of the reduced data presented in Chapter 5 is restricted to the first four themes but exclude the remaining two. This is because the observations and opinions of interview respondents were limited to two on remuneration disclosures, and just one on the matter of the lead independent director.

6.2.2.2.1 Risk Management

Disclosures on risk management was not new but had been a Code guideline subsumed under the internal control principle since the inaugural 2001 Singapore Code, with some changes in the revised 2005 Code. It is the latest requirement in the 2012 Code requiring directors to provide an absolute statement however, that raised concern and many found to be too onerous. This complaint arose from the need to set up a risk management process, from adoption of a framework to sign-off by directors. To one independent director (ID), it “would take a few years” to put a process in place, bring the audit committee up on board and train staff towards a risk management mindset. Another concern was how to ensure a risk management process was indeed in place even after the CEO and CFO had signed-off.

This is especially so in overseas entities since the board and management usually hear of control lapses in overseas operations after the fact. Thirteen respondents from both the individual and focus group interviews felt that the requirement for an absolute statement made it more difficult to disclose, and the Singapore Exchange (SGX) was asking too much. Four IDs concluded that the smaller listed companies (SLCs) they were involved with did not have dedicated resources and needed guidance to implement the SGX requirement. Nevertheless, one ID realised that execution was the key to implementation success and there was no choice but to comply and even then it was not because the company was able to. Various approaches included relegating the risk management function to the company secretary or financial controller on a part-time basis; or rely on internal audit; or hire an outside consultant.

One independent director (ID) deemed the latest requirement to be “absolute nonsense” given the lack of clarity on the scope of risk. A practitioner who provides Code compliance consulting assistance to smaller listed companies compared the SGX requirement to the US Sarbanes-Oxley (SOX) Act. Notwithstanding that it is non-statutory, the Singapore rule is nevertheless regarded to be much broader in scope since the US SOX requirement is specifically limited to financial reporting risks. An executive director-CFO and two IDs were
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concerned that companies and in particular the IDs had been “forced” to be more risk averse when risk taking is necessary to pursue money making opportunities. The ID who criticised the requirement as nonsensical opined that the SGX had not given sufficient time for public consultation, as it would have been more reasonable to require negative assurance instead.

6.2.2.2.2 Internal Audit

To five independent directors (IDs), size was the common limiting factor that explains why an in-house internal audit function is not commonly found in smaller listed companies (SLCs). The small scale of operations within SLCs precludes critical mass to achieve economies of scale and prevents the internal audit function from delivering value. As a result of size, SLCs may not be able to afford a full-time person but even where it was possible issues relating to work standards and quality would likely occur. In a one person internal audit shop, there would not be any peers for the internal auditor to meet with, exchange ideas, and obtain technical and moral support. Additionally, there may not be enough work to keep the internal auditor busy. Furthermore, staff retention would also likely be a problem in the absence of job training and rotation as well as a career path. Most internal auditors see the in-house audit function as a stepping stone to a position in an operational area or even as a career path to the CFO position in the longer term.

Another area that presents difficulties arising from in-house governance issues was cited by four IDs and two outsourced service practitioners. Since business comes first, even a full-time in-house internal audit function would not be given stature especially where work quality is an issue. One of the outsourced service practitioners, formerly an in-house internal auditor in a SLC, recounted the stint with the SLC without much management support. There was some management support on “straight forward, simple things” such as internal control matters but not in the areas of risk management or in operations. The culture within this SLC, which is not uncommon, was for internal audit not to question or challenge management decisions or actions. Going nowhere within the company, this frustrated internal audit staff left the employ of the SLC in question as a result.

This situation in SLCs can be remedied with a good and strong ID, typically the audit committee (AC) chairman, who would insist on an internal function. To the AC chair as well as other committee members, they would want to have eyes and ears on operational issues and matters. Within the SLC management, owner-managers would be more likely to accept a full-time internal audit function as an enabler to signing off on risk management and internal
controls. That leaves the line managers who as a group would not be likely to be welcoming since they would have to explain discrepancies uncovered in an internal audit review.

Six IDs and two outsourced service practitioners brought up the two areas of difficulties relating to the internal audit function in smaller listed companies (SLCs) discussed above. All but two of these individuals had surfaced the two sets of issues to support the overall conclusion that the most expedient solution for SLCs would be to outsource the internal function. The four who advocated outsourcing referred to three reasons (the number of individuals associated with each reason is in brackets): objectivity with a third party (4); staff retention (2); and costs-benefits (1). One ID preferred an in-house internal audit function in order to maximise the leveraging of the function as an enabler to Code compliance and the Singapore Exchange requirement relating to risk management. For the remaining ID, there are arguments for and against an in-house internal audit function versus outsourcing and each SLC should evaluate the merits and drawbacks to arrive at a decision.

6.2.2.2.3 CEO-Duality

Eight individuals, comprising one executive director (ED); six independent directors (IDs); and one outsourced service practitioner provided observations and opinions on this topic. Separating the dual roles of the chairman and CEO as provided in the Code is essentially a balance of power issue. Growth in the smaller listed company (SLC) is usually dependent on one or two of these individuals. Not many observations were made on the basic separation of the chairman and CEO which had been in place since the inaugural 2001 Code. The sole ED who opined on this topic touched on the difficulty of compliance in the SLC where he works. They had not been able to recruit a non-executive chairman since the controlling shareholder would still want to run the company and the chairman would then be in name only.

There is no choice but to comply with this requirement now, for even one of the three local Singapore banks which had been granted a transition period is now in compliance. This is because this requirement had been updated twice in both of the revisions to the Code in 2005 and 2012. In the revision to the 2005 Code, a lead ID was to be appointed in the situation where the two positions were not separated. When the chairman and CEO are related, the 2012 Code containing the latest changes require the board to be comprised of at least 50% of independent directors. Two EDs and IDs each opined on how this latest revised requirement had presented a new Code-compliance challenge which would arise from the difficulty of
finding enough IDs. Another ID commented that even where at least half the board must be IDs and they could be recruited, the fact remains that it still depends on the quality of the IDs.

On a separate yet related matter on CEO-duality, other issues often arise even where the chairman and CEO positions are held by separate individuals. One ID who is also non-executive chairman considered it a matter of face for the founder-owner to be the chairman instead. The ID expanded on this to observe that an atmosphere of “no respect” may prevail when an ID is chairman with the founder-owner as CEO. Also, where the ID is chairman a situation as to who is in charge may arise and cause unwanted and undesired confusion within the company. Furthermore, where a trusted friend is appointed to be a ‘nominee chairman’ then that would not be in the spirit of the Code. Furthermore, the challenge becomes one of appointing a chairman with a ‘questioning’ mindset and who can maintain a mutual respect with the founder-owner CEO.

6.2.2.2.4 Director Tenure

This issue arose from a new Guideline 2.4 in the 2012 Code that set a term limit of nine years for independent directors (IDs). It was evidently on the minds of one executive director who is also CEO and four IDs who provided their observations and opinions on the matter. The ED/CEO was concerned that the nine term limit would be difficult to meet and he wondered out loud on where the ready pool of candidates would come from, and one ID concurred. Another ID concurred, and observed that the nine-year term limit is “really tough” given a problem with access to the universe of IDs and owner-managers do not want competitors on the board. This ID opined that smaller listed companies (SLCs) would have difficulty approaching new IDs and may end up with the tendency to “go with people you know.”

A third ID attributed the compliance difficulty to the shortage of professionally trained IDs; the exclusion of friends or others with close relationships; and the high accountability expected of IDs. On the last reason, people or even the majority shareholder who do not know the company well would be reluctant to accept the appointment to the board. The fourth ID opined that SLCs prefer to keep their experienced IDs who are already familiar with the company’s business, risks, and risk management process. Accordingly, it would then be left to the Nominating Committee to explain and justify non-compliance in the company’s disclosures on corporate governance. On a separate note, the ED/CEO opined that the SLC to which he belongs may see a smaller board as a result.
6.2.3 Impact of the Code

6.2.3.1 Pre-Code State of Corporate Governance

Just a handful of individuals commented on the pre-Code period presumably since that had been more than 10 years ago and they were hazy about the history back then. One independent director (ID) observed that pre-Code, people who knew about corporate governance were restricted to professionals in public practice and professional corporate managers. To an academic who once sat on a board, in the pre-Code days the Singapore Exchange’s (SGX) Listing Manual provided the baseline corporate governance guidelines. Lastly, the president of a business organisation observed that in the pre-Code days, corporate governance was left to good habits. Curiously, no one mentioned the Companies Act which provided certain legal requirements on board matters and in particular the audit committee.

Interview respondents were requested to rate the pre-Code state of corporate governance on a scale of 1 to 10, with 10 being excellent. Only two individuals provided ratings on pre-Code state of corporate governance Singapore’s: one ID rated it at ’5’ and a CFO’s ranking was a range of 3 to 4. Two other IDs and an outsourced services practitioner indicated that it was difficult or tough to assess and did not provide any ranking. Drawing an arbitrary line in the middle and numbering it at 5.5 which is the arithmetic average of 1 to 10, then 1 to 5 fall below and 6 to 10 go above the average. Based on the considerations of the two individuals, they had rated Singapore’s pre-Code state of corporate governance to be below average.

6.2.3.2 Extent of Changes in the Early Years

Two of the three individuals who commented on the pre-Code state of corporate governance also provided observations relating to this interim period, and they were joined by two other individuals. The same independent director (ID) who commented earlier observed that in the initial years, the Code principles, such as CEO-duality, were viewed as corporate governance theory. Separately, the president of the business organisation who also commented earlier mentioned that the Code was issued in response to fraud. The president’s position is different from that of this researcher’s analysis in the literature review in Chapter 2 which attributed the development of the 2001 Code to global events on financial liberalisation. Later in the revision of the 2005 Code however, this researcher had attributed that interim update of the Code to corporate scandals; refer to Table 2.6 in Chapter 2.
A third individual, the president of a professional organisation observed that there had not been much awareness with corporate governance and the Code in this interim period. Another ID who had not commented on the pre-Code period joined in to offer observations on family owned and managed businesses in this interim period instead. Owner-managers in family businesses which had completed an initial public offering experienced the business equivalent of a cultural shock when the newly listed company came under the regulatory spotlight. Corporate governance was seen as “not natural” for them since the owner-managers were self-accountable before the Code, but post-Code they then had to provide accountability to the public. Owner-managers did not bother to spend time to read and understand the Code, and were reluctant to study and get educated on corporate governance. Lacking in understanding, they concluded in general that the Code was unreasonable based on hearsay.

As to ranking the state of Singapore’s corporate governance in this interim period, interview respondents were told to use the same scale of 1 to 10, with 10 being excellent. One ID who had not responded before reacted that it was too “tough to assess” and passed on providing any feedback. The same CFO who provided a ranking in the pre-Code period also ranked the state of corporate governance in this interim period. Corporate governance in this interim was assessed at ‘5’, a slight improvement over the pre-Code period which was rated in the range of ‘3’ to ‘4’ but still below average. The ID who had provided a rating in the pre-Code period together with the rest of the other interview respondents felt comfortable in assessing Code compliance in the interim period.

6.2.3.3 Code Impact Ten Years On

A divergent view was found among certain directors in relation to the impact of the Code on corporate governance practices of the smaller listed companies more than 10 years on. On one side, some argued that the Code had unequivocally created more awareness to the concept of corporate governance, described as ‘extremely aware’ to ‘awareness is strong’ now than before. The counter argument is that there had not been any change to corporate governance awareness, and one person described it as being tolerated and it would not be missed if taken away. Another questioned whether any value had come out of the Code, and viewed it as a duplication of laws that are already in place to cover matters addressed in the Code. An area where there was agreement is that guidelines are necessary and the Code had been useful in providing that. Independent directors in particular had found it ‘incredibly valuable’ as a checklist to get company management to do things that would not have been accomplished in the past.
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6.2.3.3.1 More Awareness

In respect of independent directors (ID), two IDs and a CFO observed that post-Code and 10 years on, there had been more awareness and alertness on director independence. One of the two IDs offered that a question remained however, on whether IDs had been diligent in questioning or had merely signed off based on the representations of others. The other ID added that in the past, IDs had tended to toe the line and be supportive of a strong-willed CEO. Two individuals commented that IDs had since been more careful to raise questions, in part due to the Air Ocean case.

In the case, an ID was charged under the Companies’ Act for been negligent in discharging the duties of a director. One ID had since taken on self-protection measures, such as, requiring that board discussions and decisions be minuted, and had internal audit look into identified and assessed risks from the risk management process. Another ID had since paid careful attention to issues, know what was going on, and not take things at face value. This same ID and a CFO both referred to the protection available for speaking out, that the CEO cannot remove someone from office due to disagreements without disclosing the reasons.

Eight individuals comprising three IDs; a CFO; and four officials representing business, professional, and research organisations concurred that the Code had been instrumental in creating awareness in corporate governance. One ID described the situation as having improved “a lot” especially among companies that pursued excellence in corporate governance practices. Another ID cited the spread in formation of three board committees required in the Code compared to just the audit committee pre-Code. This same ID felt that corporate governance awareness had improved to the level of ‘strong’ with owner-managers being familiar with Code requirements.

The ID who likened the Code to corporate governance theory after it was initially released observed that most had since understood what corporate governance is, at least in theory. A challenge that remained however is practice and many still are not aware of what good corporate governance practice is. In hindsight, one ID viewed the Code as a set of useful guidelines for listed companies and as a means to keep management on their toes. Another ID sees the Code as increasing in usefulness to the executive directors and management especially as the world grows more complex.

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6.2.3.3.2 Rating

The same ID who had passed on rating in the previous period responded in similar manner contending that that it was too “tough to assess”. Again, except for the CFO who completed assessments in the two previous periods none of the others took an interest in this exercise. On the same scale of 1 to 10, with 10 being excellent, the CFO updated his rating on the state of corporate governance 10 years on to a range of ‘6’ to ‘7’. To recap and compare, this CFO’s ratings in the two previous periods are presented in Table 6.1 below which are compared to the third period which had improved to above average.

<table>
<thead>
<tr>
<th>Pre-Code</th>
<th>Post-Code – 5 Years on</th>
<th>Post-Code – 5 Years on</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 4</td>
<td>5</td>
<td>6 to 7</td>
</tr>
</tbody>
</table>

6.2.4 Improvement Actions and Changes

6.2.4.1 Regulators

Two recurring messages for the regulators revolved around the philosophy of comply or explain adopted in the Code, and the need for striking a balance in regulatory governance. Some directors felt that the soft approach of the Code lacked ‘bite’ and which had therefore, rendered it ineffective to spur compliance. One independent director called for the Code to be made mandatory while cautioning against going overboard, and to allow time for the spirit of the Code to sink in. On the matter of balancing the cost-benefit of regulations, many felt the last round of changes to the Code and Singapore Exchange Listing Manual rules were too onerous. Apart from director tenure and relating the composition of independent directors to CEO-duality, there was the listing manual rule for an absolute statement from the directors and management on risk management. An executive director and CEO worried that turning independent directors into watchdogs could have two undesirable effects. One scenario sees the independent directors running the company and stifling decision making; another envisages that they may shy away from siting on the boards of smaller listed companies altogether.

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6.2.4.2 Others

Business and professional organisations with an interest in corporate governance are generally viewed to have contributed to creating corporate governance awareness, although one saw them as self-directed rather than helping smaller listed companies. Another director wished they could be more pro-active in influencing regulatory changes, and move away from a reactive and ‘blowing in the wind’ mindset. Moving on to the companies themselves, change is expected to be slow in coming to the family-owned and owner-managed smaller listed companies, especially where the older generation is still active. While they need corporate governance training the most, they are also the least likely to attend any training courses, if at all. Lastly, the prevailing perspective on shareholders of the smaller listed companies is that they have yet to make an impact in influencing corporate governance in these companies. More specifically, they need to be more robust in requesting disclosures of additional information, and raise appropriate queries at AGMs.

6.2.5 Corroborating Findings from Secondary and Tertiary Data

In this sub-section, the method of triangulation is applied with secondary data and tertiary data to validate certain of the primary data collected in the semi-structured individual and focus group interviews. Both the secondary data and tertiary data were collected from various sources of social artefacts summarised in Table 4.2 in Chapter 2. To recap, the secondary data were collected from 25 documents that were comprised of news reports and newspaper opinion articles. The tertiary data were collected from a 2007 business study, an annual corporate governance index, and a 2009 academic research article. Organised into two parts, the first data validation uses the secondary data from the annual corporate governance index and the second data validation uses the tertiary data news reports and newspaper opinion articles.

6.2.5.1 Tertiary Data

Scoring on the Governance and Transparency Index comprises two components, starting with a base score up to a maximum of 100 points for disclosures of corporate governance practices, financial transparency and investor relations. By design, companies that merely ‘tick the box’ to comply with the minimum Code requirements can only score about 30 points out of the maximum possible. The base score is then adjusted for bonuses in which companies that go beyond ‘ticking the box’ are also rewarded with bonus points where they embrace good
practices beyond the Code requirements. On the flip side, companies are penalised for weak practices as well as for corporate events that reflect poor corporate governance.

Table 6.2 State of Corporate Governance in Listed Companies (Revisited)

By the 2011 Governance and Transparency Index (GTI) scores

<table>
<thead>
<tr>
<th>GTI Scores (a)</th>
<th>All Companies</th>
<th>Small Caps</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>%</td>
</tr>
<tr>
<td>85 and above</td>
<td>6</td>
<td>0.9</td>
</tr>
<tr>
<td>75 to 84</td>
<td>7</td>
<td>1.1</td>
</tr>
<tr>
<td>50 to 74</td>
<td>38</td>
<td>5.8</td>
</tr>
<tr>
<td>31 to 49</td>
<td>272</td>
<td>41.2</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>323</td>
<td>48.9</td>
</tr>
<tr>
<td>30 and below</td>
<td>337</td>
<td>51.1</td>
</tr>
<tr>
<td>Total</td>
<td>660</td>
<td>100</td>
</tr>
<tr>
<td>Companies with GTI scores of 50 or more</td>
<td>51</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Legend:
(a) Prepared by the Centre for Governance, Institutions and Organisations, National University of Singapore Business School, covering annual reports released from 1 January to 31 January 2011
(b) Percentage of total small caps (market capitalisation, less than SGD 500 million)
(c) Percentage of all companies

Table 6.2 presented analyses the 2011 Governance and Transparency Index scores of the smaller listed companies (SLCs) compared to all companies, which is revisited from the literature review in Chapter 2. More than half (56.4%) of the SLCs are, by the definition of the Governance and Transparency Index, ‘ticking the box’. This is an interesting statistic and which validates one of the key findings from the semi-structured individual and focus group interviews. To revisit, the primary data from the research revealed that SLCs tended to just do the minimum or looked for ways to get around it.

In other words, and as corroborated with the tertiary data from the Governance and Transparency Index, SLCs would do anything rather than to embrace the spirit of the Code. There is no pass-fail indication in the Governance and Transparency Index, but it was previously assumed that for this analysis, the passing grade is 50 marks and above. Revisiting, the assumed alphabet grades are, as follows: F (49 and below); D - to B + (50 to 74); A - to A (75 to 84); A + (85 and above). On this basis accordingly, just 18 (3.3%) of the SLCs obtained a passing grade and only two (less than half a percent) SLCs are of A - grade.
6.2.5.2 Secondary Data

In a newspaper opinion article, the author shared an anecdote about a conversation with the CEO of a major listed company. Although said half-jokingly, the CEO said something to the effect that corporate governance applies to others but not to him (Cheng, 2014). A McKinsey consultant shared a similar anecdote in the early 2000s about his experience with a CEO who contended that corporate governance was the concoction of consultants. More specifically, he wanted to see the evidence for himself that corporate governance indeed pays before he could accept the concept (Newell, and Wilson, 2002). Cheng’s anecdote is tacit confirmation of a similar finding from primary data collected in semi-structured interviews relating to attitudes and motivation towards corporate governance. Most of the smaller listed companies just go through the motions in Code compliance without being serious about embracing the spirit of the Code.

6.3 Theorising Corporate Governance in Smaller Listed Companies

A theoretical framework was constructed to further describe the corporate governance practices and Code compliance among the smaller companies listed on the Singapore exchange. This theoretical framework construction process began with the identification of sensitising concepts, which was discussed and presented in Chapter 3 relating to theory. The identified sensitising concepts served as a guide, more accurately “clues and suggestions” (Blaikie, 2000, p 137) during the research process in particular at the time of data collection and data reduction. Some of the sensitising concepts began to firm up as definitive concepts during this stage of the process, and themes also started to emerge from the research findings. As the sensitising concepts started to firm up, this led to initial theorising that resulted in the generation of the abstract-analytical model depicted in Figure 6.3 shown earlier in this chapter, page 129.

At the same time the combination of these concepts began to firm up, the shape of a theoretical framework started to form. The theoretical framework is presented in Figure 6.4 on the next page which is supported by the abstract-analytical model in Figure 6.3 on page 129. The theoretical framework presented in Figure 6.4 was constructed to describe four types of owner-managers, the entrepreneurs, in smaller listed companies (SLCs). Specifically, the Entrepreneurs and Corporate Governance theoretical framework, supported by the Approaches to Risks-Opportunities-Controls abstract-analytical model, theorises the attitudes of owner-managers in SLCs towards corporate governance in general and Code compliance in
Corporate governance conscious entrepreneurs are the type of owner-managers who embrace the spirit of the Code and recruits truly independent directors who work actively with executive management in the interest of the company. He takes a balanced risks-opportunities-controls approach, in partnership with the independent directors (outsiders) and the controllers among executive management (insiders), to pursue opportunities without excessive risks while ensuring controls over inherent business risks. While corporate governance aware entrepreneurs are well aware of good practices, they choose not to engage in conscious efforts to fully embrace the spirit of corporate governance. They accept bringing in active independent directors to serve on their boards but choose not to comply with other Code provisions, preferring for example, a right-brain approach (Figure 6.3) to risks-opportunities-controls.

A branch of the corporate governance aware entrepreneurs are the savvy owner-managers who recognise that good corporate governance is a criterion among others used in decisions, for example, the selection of business partners. They capitalise on this widely practiced notion...
therefore, to project a positive image in company disclosures on their corporate governance practices, whether or not the disclosures reflect the actual, and the real, situations. Lastly, vintage entrepreneurs are at the opposite end of the spectrum to the corporate governance conscious entrepreneurs, and as the label suggests they are the quintessential and classic right-brain entrepreneurs. Vintage entrepreneurs view corporate governance and Code compliance negatively, with a ‘have to’ attitude. Their companies are most likely to ‘tick the box’ in Code compliance, and to be among the bottom scorers on the Governance and Transparency Index.

6.4 Summary and Conclusion

Smaller listed companies (SLCs) primarily viewed corporate governance in general and Code compliance in particular as both an obligation to comply and a compliance burden. There was a widespread view that SLCs would not care about corporate governance if it was not required and as one executive director shared, they would be happy just to be left alone. In this regard, the finding that SLCs would just do the bare minimum or find ways around it rather than embrace the spirit of the Code was corroborated with secondary data. The lament of a compliance burden is real, especially for a company that is still largely family-owned after a public listing and is owner-managed. A drastic change from being self-accountable to being told of accountability to shareholders and other stakeholders had been difficult for owner-managers especially where they retained a majority shareholding.

Four motivating factors had been suggested to be behind what pushes some smaller listed companies to embrace corporate governance practices and the Code’s requirement to comply or explain more readily. The most frequent suggested theme was the attitude, awareness, and leadership among executive management, and the preceding analysis showed that attitude comes from being ethical and honest about accepting responsibility for corporate governance. Ethical owner-managers acting in the best interest of the company fit the description of Theory Y behaviour, as opposed to Theory X behaviour which describes managers who pursue their own interests. Antithetical to agency theory, stewardship theory informs the scenario of an ethically responsible owner-manager growing the company in the interests of all stakeholders.

Cost and resource constraints were the most mentioned under the lead discussion question of problems and difficulties faced in corporate governance and Code compliance. Besides the issues raised summarised under the two themes of ‘costs’ and ‘resources’, observations with the theme of ‘independent directors’ (IDs) brought up problems and difficulties IDs faced in
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SLCs. Increasing Code compliance requirements led to the general perception that IDs had been turned into watchdogs for the regulators, what one ID described as resulting naturally in a “they versus us” situation. The six challenging Code principles and guidelines cited by the respondents, in descending order of the frequency of citations, were: risk management; internal audit; CEO-duality; director tenure; remuneration disclosures; and lead independent director.

Interestingly, the president of a business organisation observed that in the pre-Code days, corporate governance was left to good habits. Separately, the president of a professional organisation observed that there had not been much awareness with corporate governance and the Code in the interim period. A divergent view was found among certain directors in relation to the impact of the Code on corporate governance practices of the smaller listed companies more than 10 years on. On one side, some argued that the Code had unequivocally created more awareness to the concept of corporate governance, described as ‘extremely aware’ to ‘awareness is strong’ now than before. The counter argument is that there had not been any change to corporate governance awareness, and one person described it as being tolerated and it would not be missed if taken away.

Two recurring messages for the regulators revolved around the philosophy of comply or explain adopted in the Code, and the need for striking a balance in regulatory governance. Some directors felt that the soft approach of the Code lacked ‘bite’ and which had therefore, rendered it ineffective to spur compliance. One independent director called for the Code to be made mandatory while cautioning against going overboard, and to allow time for the spirit of the Code to sink in. On the matter of balancing the cost-benefit of regulations, many felt the last round of changes to the Code and Singapore Exchange Listing Manual rules were too onerous. Business and professional organisations with an interest in corporate governance are generally viewed to have contributed to creating corporate governance awareness, although one saw them as self-directed rather than helping smaller listed companies.

Change in the companies is expected to be slow in coming to the family-owned and owner-managed smaller listed companies, especially where the older generation is still active. While they need corporate governance training the most, they are also the least likely to attend any training courses, if at all. Lastly, the prevailing perspective on shareholders of the smaller listed companies is that they have yet to make an impact in influencing corporate governance in these companies. More specifically, they need to be more robust in requesting disclosures of additional information, and raise appropriate queries at AGMs.
CHAPTER 7
CONCLUSION

Reflections on the Research

Figure 7.1 Layout of the Discussions in Chapter 7

<table>
<thead>
<tr>
<th>Section</th>
<th>Section Heading</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>7.2</td>
<td>Summary of the Research and Findings</td>
</tr>
<tr>
<td>7.3</td>
<td>Contributions to, and Implications for, Practice</td>
</tr>
<tr>
<td>7.4</td>
<td>Limitations and Future Research</td>
</tr>
<tr>
<td>7.5</td>
<td>Summary and Conclusion</td>
</tr>
</tbody>
</table>

7.1 Introduction

The first three chapters in Part One of the thesis that included the literature review; theory and the conceptual model; and research methodology provided for the staging of the research. Part Two of the thesis which is comprised of Chapter 5, Findings; Chapter 6, Findings Analysis; and this concluding chapter relating to reflections on the research collectively provides a report on the research. Figure 7.1 above lays out the presentation and discussion in this concluding chapter to wrap up the reporting of the research in Part One of the thesis. It begins in section 7.2 with a summary of the research and findings. Section 7.3 follows with discussions on the contribution of knowledge, section 7.4 on shortcomings and limitations of the research, and section 7.5 wraps it up. As in the preceding chapters, references to the Singapore Code or Code and Code compliance in this chapter are in respect of the Singapore Code of Corporate Governance.
7.2 Summary of the Research and Findings

7.2.1 The Research

A methodological framework was developed to carry out the research in four steps. In Work Step One, a literature search was conducted to determine the data sources, type and form that would be available for the research. Field testing was carried out in Work Step Two with the ultimate aim to decide on data selection. Based on the conceptual model developed to provide context to the research, a search on the potential targets to be invited for interviews was carried out. From this research, two target lists were developed: the interviewee target list, and the list of potential sponsors to hold one or more seminar cum focus group discussions. Using the interviewee target list, a sample of potential interviewees was selected to send out pilot invitations via email. Similarly, the potential sponsors for one or more seminar cum focus group discussion were approached first via email.

Results of the pilot tests were not encouraging and modifications were made to targeting individuals for interviews. In the adjusted approach, judgemental sampling was initially applied to target business and professional contacts who met the research criteria. This modified approach proved to work better and some of the targeted personal contacts responded positively to an interview. Once an interview had been scored, snowball sampling was implemented to request interviewees’ assistance to recommend someone they knew who might be agreeable to be interviewed. The snowball sampling approach worked and generated a few more interviewees that would otherwise not had materialised. As for the seminar cum focus group discussion/s, none of the organisations approached in the pilot testing was interested in sponsoring an event. As an alternative, one seminar cum focus group discussion event was held in the personal capacity of a doctoral student and researcher.

With the two preceding work steps completed, 21 participants were garnered for semi-structured individual interviews. As for the seminar focus group discussion, seven individuals signed up to attend a free seminar on enterprise risk management. The seminar participants were also invited to stay on after the seminar for the optional focus group discussion and four among the seven registered to participate. On the day of the event however, five of the seven registered showed for the seminar and three stayed on for the focus group discussions. All in all, a total of 24 persons participated in Work Step Three of the research – 21 in semi-structured individual interviews and another three in the semi-structured focus group discussion.
The discussions were guided by two to three lead questions prepared for each of the four categories of research questions summarised under four topics. These topics are, as follows: attitudes and motivation; problems and difficulties; impact of the Code; and actions and changes for improvement. In Work Step Four, reduction of the qualitative data collected entailed organising the findings by the same categories of lead questions fielded in data gathering. In all, the data reduction exercise generated 55 themes organised under each of the four topics. Improvement actions and changes for regulators had the most themes at 10, followed by problems and difficulties in Code compliance with nine themes. Challenging Code principles and guidelines relating to Code compliance tied with improvement actions and changes for regulators at six themes each. Data collection and reduction in Work Steps Three and Four were documented and discussed in Chapter 5. Work Step Four in the methodological framework also included the synthesis and analysis of data and was presented in Chapter 6.

7.2.2 Overall Findings

A key highlight of the findings to the question of what corporate governance is to smaller listed companies (SLCs) was best reflected in the words of two individual interview respondents. One respondent mentioned that it would depend on who one talks to (IIR 14), and the other concurred that it would depend on who you ask (IIR 21). Whilst this beginning research question elicited findings that were reduced to five themes, there was however a general consensus that did emerge. A companion question pertaining to the motivating factors that cause SLCs to adopt good corporate governance practices and embrace the Code’s ‘comply or disclose’ philosophy produced four themes.

The two lead questions to probe the difficulties and other issues that SLCs face in corporate governance and Code compliance led to a combined total of 15 themes that were not unexpected. Unsurprisingly, most respondents had little to no comments on the first two lead questions on how the Code had impacted corporate governance in SLCs compared to pre-Code days and in the mid-term period. These two lead questions generated five themes combined, while the last lead question on the impact 10 years on prompted findings that were reduced to five themes alone. Finally and expectedly, the four lead questions in the last category to explore improvements and changes needed among four principal corporate governance stakeholders spawned the most themes for regulators followed by the SLCs.
SLCs primarily viewed corporate governance in general and Code compliance in particular as both an obligation to comply and a compliance burden. There was a widespread view that SLCs would not care about corporate governance if it was not required and as one executive director shared, they would be happy just to be left alone. In this regard, the finding that SLCs would just do the bare minimum or find ways around it rather than embrace the spirit of the Code was corroborated with secondary data. The lament of a compliance burden is real, especially for a company that is still largely family-owned after a public listing and is owner-managed. A drastic change from being self-accountable to being told of accountability to shareholders and other stakeholders had been difficult for owner-managers especially where they retained a majority shareholding.

Four motivating factors had been suggested to be behind what pushes some smaller listed companies to embrace corporate governance practices and the Code’s requirement to comply or explain more readily. The most frequent suggested theme was the attitude, awareness, and leadership among executive management, and the preceding analysis showed that attitude comes from being ethical and honest about accepting responsibility for corporate governance. Ethical owner-managers acting in the best interest of the company fit the description of Theory Y behaviour, as opposed to Theory X behaviour which describes managers who pursue their own interests. Antithetical to agency theory, stewardship theory informs the scenario of an ethically responsible owner-manager growing the company in the interests of all stakeholders.

Cost and resource constraints were the most mentioned under the lead discussion question of problems and difficulties faced in corporate governance and Code compliance. Besides the issues raised summarised under the two themes of ‘costs’ and ‘resources’, observations with the theme of ‘independent directors’ (IDs) brought up problems and difficulties IDs faced in SLCs. Increasing Code compliance requirements led to the general perception that IDs had been turned into watchdogs for the regulators, what one ID described as resulting naturally in a “they versus us” situation. The six challenging Code principles and guidelines cited by the respondents, in descending order of the frequency of citations, were: risk management; internal audit; CEO-duality; director tenure; remuneration disclosures; and lead independent director.

Interestingly, the president of a business organisation observed that in the pre-Code days, corporate governance was left to good habits. Separately, the president of a professional organisation observed that there had not been much awareness with corporate governance and
the Code in the interim period. A divergent view was found among certain directors in relation to the impact of the Code on corporate governance practices of the smaller listed companies more than 10 years on. On one side, some argued that the Code had unequivocally created more awareness to the concept of corporate governance, described as ‘extremely aware’ to ‘awareness is stronger’ now than before. The counter argument is that there had not been any change to corporate governance awareness, and one person described it as being tolerated and it would not be missed if taken away.

Two recurring messages for the regulators revolved around the philosophy of comply or explain adopted in the Code, and the need for striking a balance in regulatory governance. Some directors felt that the soft approach of the Code lacked ‘bite’ and which had therefore, rendered it ineffective to spur compliance. One independent director called for the Code to be made mandatory while cautioning against going overboard, and to allow time for the spirit of the Code to sink in. On the matter of balancing the cost-benefit of regulations, many felt the last round of changes to the Code and Singapore Exchange Listing Manual rules were too onerous. Business and professional organisations with an interest in corporate governance are generally viewed to have contributed to creating corporate governance awareness, although one saw them as self-directed rather than helping smaller listed companies.

Change in the companies is expected to be slow in coming to the family-owned and owner-managed smaller listed companies, especially where the older generation is still active. While they need corporate governance training the most, they are also the least likely to attend any training courses, if at all. Lastly, the prevailing perspective on shareholders of the smaller listed companies is that they have yet to make an impact in influencing corporate governance in these companies. More specifically, they need to be more robust in requesting disclosures of additional information, and raise appropriate queries at AGMs.

7.3 Contributions to, and Implications for, Practice

Contributions from this study to practice can be traced back to the three primary gaps in past research that provided the motivation for the research. Revisiting and summarising once more, they are, one, almost all the past research relevant to this study had been business and not academic studies where theory was not a consideration. Two, smaller listed companies (SLCs), defined by market capitalisation (below SGD 500 million) and which comprise more than 80% of all listed companies, had not been granted the exclusive attention that they
deserve. Three, the descriptions of practices and code compliance among listed companies in past studies had been primarily based on self-disclosures of the companies.

To be concise and precise, this study considered theory to focus on the practices and Code compliance among SLCs in order to provide fresh insights from the perspectives of the social actors themselves. Importantly, the majority (81%) among the social actors interviewed in the study are actively engaged in corporate governance among SLCs. These individuals are either board members – executive and non-executive directors (24%); and independent directors (38%) – or executive management (5%), and professional service providers (14%). Most, if not all, of the findings in four categories – attitudes and motivation; corporate governance and Code compliance issues; impact of the Code; and improvement actions and changes – are relevant to all parties. In the next three sub-sections, the contributions to knowledge are analysed by the implications that the study presents for practice impacting managers, academics, and public policy.

7.3.1 Implications of the Study for Managers

Generally, managers can learn about how the social actors – the independent directors as well as officers in the institutions and service providers with an interest in corporate governance – view practices among SLCs. More specifically at the company level however, they can review how their organisations’ experiences compare to the corporate governance and Code compliance issues presented in the findings. Above all, findings on improvement actions and changes for the regulators, companies, and shareholders are arguably of particular and special interest to managers. From a regulatory standpoint, management action or inaction on their organisation’s corporate governance and Code compliance practices would influence future public policy decisions that in turn impact managers and their organisations.

7.3.2 Implications for Academics

From an academic perspective, the focus of the study to fill three specific gaps in the literature along with a fresh and replicable research methodology is expected to appeal to the research community. Firstly, a compendium of theories incorporating enterprise risk management concepts, organisational behavior theory, and metaphors were applied to construct an abstract-analytical model to underpin the study. Then in the synthesis and analysis of the findings, a theoretical framework was constructed and applied to describe corporate governance and Code compliance practices among SLCs. Secondly, the study was dedicated to SLCs,
deliberately defined broadly by market capitalisation to include companies under SGD 500 million to allow for comparison with other capital markets in future research.

Thirdly, the idealist ontology combined with the epistemology of constructionism together with the selection of the abductive strategy was adopted to provide a fresh approach to the study. Unlike past research that described corporate governance and Code compliance practices from the listed companies’ self-disclosures, the different approach in this study sought the perspectives of the social actors themselves. The researcher’s tacit embrace of the interpretivist paradigm took the position to view social reality as the social actors’ interpretations which were then reinterpreted in the language of the researcher. Primary data from this source were triangulated with secondary and tertiary data to corroborate the findings, resulting in the application of both quantitative and qualitative analysis.

7.3.3 Implications for Public Policy

The implications of this study for public policy are drawn out by way of comparisons with the 2007 study and the other recurring annual Governance and Transparency Index (GTI) study. To recap briefly, the 2007 comprehensive study on the state of corporate governance in Singapore listed companies was jointly commissioned by two regulatory agencies. The 2007 study described corporate governance and Code compliance practices based primarily on the listed companies’ self-disclosures in annual reports. It was supplemented with limited interpretations of social reality by social actors who participated in two focus group discussions. Currently, the annual GTI study provides regulators with an update on the state of corporate governance in Singapore listed companies. Descriptions in the annual GTI study however, are based purely on the listed companies’ self-disclosures in annual reports and other statutory reporting.

In respect of, and relative to, both the 2007 study and annual GTI study, the findings in this study are both corroborative and supplemental in nature. The qualitative analysis of both primary and secondary data in this study corroborated the quantitative analysis of the companies’ self-disclosures in both the 2007 study and annual GTI study. Essentially, the ‘tick the box’ mentality among the majority of SLCs towards corporate governance and Code compliance practices revealed in their self-disclosures were mirrored by the social actors’ interpretation of the social reality. Additionally and compared to the annual GTI study, this study provided an alternative perspective on the state of corporate governance among SLCs exclusively from the lens of the social actors’ interpretations. Moreover, in respect of the
2007 study, this study provided regulators with an updated perspective on the improvement in regulatory actions and changes desired by the social actors. The improvement actions and changes that these social actors expected from the regulators uncovered in this study were more comprehensive than the limited findings provided in the 2007 study.

### 7.4 Limitations and Future Research

The concluding comments in this chapter would neither be complete nor provide a balanced view without consideration of the shortcomings and limitations related to the study, as well as the problems encountered. Objectivity in data gathering was subjected to compromise at two levels arising from the research strategy and data collection method selected, and the low number of interview respondents secured. At the philosophical level, adoption of the interpretivist paradigm produced findings that were first, from the interpretations of the social actors interviewed and next, reinterpreted and described in the language of the researcher. Lower on the research method level, problems in attracting interview respondents led to a judgemental and snowball sampling approach which resulted in all but three participants sourced from the researcher’s professional contacts. Arising from the low response, the descriptions were limited to findings collected from a total of 24 persons of whom 21 participated in individual interviews and three in a focus group discussion, respectively.

On a separate note, the findings and analysis generated in this study presented at least three opportunities for future research. Given that the findings in the study are easily replicable, one immediate future research is to simply extend the sample of interview respondents to validate the findings in this study. Moving forward, the research could be repeated say, every five years to update the state of corporate governance among SLCs from the perspective of the social actors using the qualitative approach adopted here. Still another possible future research opportunity stems from the theoretical framework constructed to describe the corporate governance and Code compliance practices among SLCs, which may be tested and refined further.

### 7.5 Summary and Conclusion

Descriptions on the corporate governance practices and Code compliance of the companies listed on the Singapore Exchange in past studies had relied on the companies’ self-disclosures. Past studies either covered all listed companies or focused on the larger entities although smaller listed companies (SLCs), with market capitalisation below SGD 500 million,
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comprise the majority of listed companies. Additionally, two of the past research most relevant to this study were business studies and as such were void of any consideration of theory. The study completed for this thesis, which is submitted for the Doctor of Business Administration degree, aimed to be different in at least three ways.

Firstly, it is focused on the SLCs only which deserve to be given prominence since they comprise more than 80% of companies listed on Singapore Exchange. Secondly, descriptions on the corporate governance practices and Code compliance of SLCs are based on the insiders’ perspectives of social actors. Thirdly, the study was underpinned by an abstract-analytical model that incorporated a combination of enterprise risk management concepts, organisational behavior theory, and metaphors. Analysis and synthesis of the findings, supported by the abstract-analytical model, led to further theorising that describes the attitudes and motivation among entrepreneurs in SLCs towards corporate governance and Code compliance.

Besides the addition of a different academic study to the literature and the contribution of new knowledge, findings in the study present implications for practice impacting managers, academics, and regulators. Among other benefits, managers can benchmark their organisations’ experiences with corporate governance and Code compliance to the social actors’ interpretation of the state of practices among SLCs. The qualitative approach adopted in the study together with the construction of a theoretical framework supported by the abstract-analytical model underpinning the research is expected to appeal to the academic community. This is in part due to several opportunities for future academic research which could be extended to study the state of corporate governance among SLCs in other capital markets.

First, the research could be easily replicated to validate the findings. As well, the research could be updated periodically say, every five years or in conjunction with an update to the Code. Second, the theoretical framework could not only be tested and verified with data from SLCs in other countries but it could also be subjected to further theorising. To the regulators, the findings provide an updated state of corporate governance and Code compliance among SLCs from the interpretation of social actors who are closely associated with such entities. The findings in particular provide comprehensive feedback from executive and independent directors, executive management, professional service providers, and other stakeholders on the regulatory improvement actions and changes on their respective wish lists.
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